| | | | | | |
|---|---|---|---|---|---|
| Austria | Sch30 | Indonesia | Rp3100 | Philippines | Peso40 |
| Bahrain | Din0.700 | Iran | [illegible] | Poland | Zl9,000 |
| Belgium | BFr65 | Israel | Shk3.50 | Portugal | Esc130 |
| Cyprus | C£0.90 | Italy | L2000 | Qatar | QR8.00 |
| Denmark | DKr12.00 | Jordan | Fils1000 | S.Arabia | SR7.00 |
| Egypt | £2.25 | Kuwait | Fils.600 | Singapore | S$4.10 |
| Finland | FM8.00 | Lebanon | [illegible] | Spain | Pta165 |
| France | FFr7.00 | Lux | LFr65 | Sweden | SKr12 |
| Germany | DM2.20 | Malaysia | M$4.25 | Switz | SFr2.50 |
| Greece | Dr120 | Morocco | MDh8.00 | Thailand | Bht50 |
| Hong Kong | HK$12 | Neth | Fl 3.25 | Tunisia | Din0.850 |
| Hungary | Ft107 | Nigeria | Naira10 | Turkey | L3000 |
| Iceland | Kr160 | Norway | NKr12.00 | UAE | Dh7.00 |
| India | Rs15 | Oman | OR1 | | |

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

FT No. 31,182


Monday June 25 1990

D 8523A

CANADA
An American tale of two dollars
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## World News

### Israel keeps Soviet Jews out of West Bank, Gaza

Mr Ariel Sharon, Israel's hawkish housing minister and a leading advocate of Jewish rule in the West Bank and Gaza Strip, said that Soviet Jewish immigrants would not be settled in occupied Arab lands.

His statement coincided with mounting pressure from the US and the Soviet Union against the settlement of Soviet immigrants in the occupied territories. Page 3

### Walesa accused

Top Solidarity figures resigned from Lech Walesa's political powerbase by leaving the Citizen's Committee, the group that masterminded Solidarity's victory over the Communists in elections last year. They accused him of undermining the government and acting like a despot.

### Colombia executions

Hooded gunmen shot 19 men to death in an execution outside a nightclub near Medellin, Colombia's cocaine capital, and 36 other people were killed in weekend incidents, police said.

### Belgium warns Zaire

Mark Eyskens, Belgium's Foreign Minister, warned President Mobutu Sese Seko's Zairean government against carrying out its threat to expel all 700 Belgian aid workers in the wake of allegations of a massacre of dissident students in Shaba province last month. Page 2

### Japanese aid up

Japan overtook the US as the world's largest aid donor to developing countries for the first time last year, with net disbursements of $8.96bn compared with US disbursements of $7.66bn, according to a report on western aid flows by the OECD-based Development Assistance Committee (DAC). Page 3

### Shift east urged

East Germany's Prime Minister, Mr Lothar de Maizière, has spoken out strongly in favour of Berlin as capital of the new Germany, arguing that the united country must shift eastwards. Page 4

### Socialists win

Spain's governing Socialist Party has romped home to an easy victory in elections to the regional parliament in Andalucia, making a mockery of a six-month campaign by most national Spanish newspapers and the opposition parties to discredit it for alleged corruption. Page 4

### Rebels claim victory

Ethiopian rebels said they had killed 686 troops from two Ethiopian army brigades and captured the towns of Mehal Meda and Molale, 170km northeast of the capital, Addis Ababa.

### Lebanon car bomb

A car bomb killed an official of the pro-Syrian Moslem Shi'ite Amal militia and wounded three of his bodyguards in Ghaziyeh village near the southern port of Sidon as local Amal leader Hussein Hijazi passed by in an Amal convoy, Lebanese security sources said.

### Hijacker gives up

A Soviet hijacker who said he had a bomb surrendered to police and asked for asylum in Finland after forcing an Aeroflot jet to divert to Helsinki. It was the second time in six days that a Soviet airliner had been hijacked to Finland. Picture, Page 2

### Berlin Wall sale

Graffiti-covered panels of the Berlin Wall were auctioned for about FFr60,000 ($10,600) a square metre in the French Riviera principality of Monaco to help finance new hospitals in East Germany.

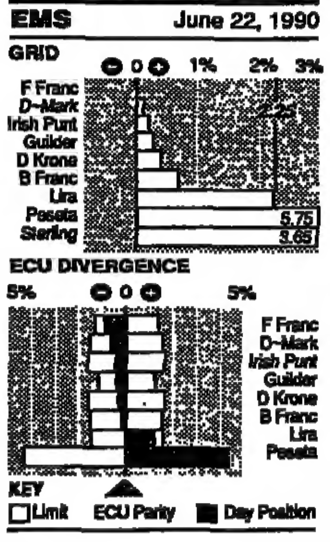
## Business Summary

### Soviet Union applies to join World Gold Council

The Soviet Union, the world's second largest gold producer, has applied to join the World Gold Council, the promotional body supported by more than 90 western mining companies, including 31 from South Africa. Page 4

**EUROPEAN Monetary System:** The Spanish peseta and Italian lire remained the firmest currencies within the EMS last week as their high interest rates continued to provide support. The peseta and lire were strong, particularly against the French franc, which could remain towards the bottom of the grid as long as its interest rates are unchanged. Currencies, Page 31

**EMS** June 22, 1990




*The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu), itself derived from a basket of currencies.*

**ECU:** "A new cumbersome detour" is how Karl Thomas, president of the central bank of Hesse and member of the West German central bank council, describes the British Chancellor's proposals for a parallel hard Ecu currency as an alternative route to European monetary union. Page 4

**BRITISH industrial orders:** British industry's order books are at their lowest level for eight years, according to figures issued by the Confederation of British Industry, the employers' organisation. The figures suggest the government's monetary squeeze is beginning to bite. Page 18. London Business School forecasts, Page 8

**IBM** is to launch a range of low-cost desktop computers in the US which it hopes to establish as a standard home appliance. Six years ago its first attempt to enter this market failed to excite consumers. Page 18

**BANCO Central,** Spain's third largest commercial bank, said it has rejected plans to group its industrial holdings into a quoted holding company for fear of instability in the markets. Page 22

**EUROPEAN Construction:** Growth in industry output will slow considerably during the next two years as interest rate rises inhibit private investment in housing, offices and shops, according to forecasts prepared by 13 European countries. Page 4

**TRUMP:** Donald Trump has won over more banks to the restructuring plan on which his cash-starved property, casino and airline empire depends. Dresdner Bank is believed to be the last large institution opposed to the plan. Page 22

# Canada moves to calm markets amid political uncertainty

**By Bernard Simon** in Calgary and **Robert Gibbens** in Montreal

CANADA'S finance minister appealed yesterday to foreign investors not to allow the collapse of the Meech Lake constitutional accord to overshadow their perception of the country's economic strengths.

Mr Michael Wilson said in an interview yesterday that "while there is likely to be some uncertainty, we must balance that against the more fundamental performance of the Canadian economy and our economic policies."

Nevertheless, the collapse of the accord, which was designed to get Quebec's signature on the Canadian constitution in return for recognition of its "distinct" identity, shows signs of bringing greater volatility to what has hitherto been one of the world's calmest political systems.

Ottawa's efforts to reassure foreign investors, which included a two-page statement by Mr Wilson outlining the government's economic priorities and achievements, came as Canadian banks called in extra foreign exchange traders last night as a precaution against a turbulent reaction in international financial markets to the collapse of Meech Lake.

Panic selling of Canadian securities or the Canadian dollar is considered unlikely. But one senior foreign exchange executive predicted that with heightened uncertainty about Canada's political future, "there may be fewer inflows of foreign investment over the coming months."

Since the failure of two dissident provinces, Manitoba and Newfoundland, to ratify the accord last Friday, political leaders across a wide spectrum have sought to soothe the strong feelings aroused by the three-year debate over the divisive constitutional package.

Quebeckers' disappointment at what they regard as a rejection by English Canada is expected to boost the cause of separatists in the francophone province.

The leader of the separatist Parti Quebecois, Mr Jacques Parizeau, said that "sovereignty is more than ever inevitable now. I'm convinced it might come sooner rather than later."

Earlier, in a carefully measured response, Mr Robert Bourassa, the province's premier, said that he will take no part in any further constitutional talks with the other nine provinces, and will in future deal only with the federal government and the other provinces on a bilateral basis. But he said "no decisions will be taken which bring risks for the economic safety of Quebec."

Rain forced the cancellation of a huge march planned in Montreal yesterday to celebrate St Jean-Baptiste Day, Quebec's national holiday. With sales of Quebec's fleur de lys flag at record levels recently, the march, now due to be held today, is expected to reflect the new exuberance among nationalists.

The failure of Meech Lake is also likely to create severe strains in Canada's two main political parties.

The Prime Minister, Mr Brian Mulroney, has been widely condemned for his handling of the crisis, especially the last-minute pressure exerted on the two dissident provinces. Close to a dozen Quebec MPs in the ruling Progressive Conservative party earlier indicated that they would reconsider their positions if the accord collapsed.

In the opposition Liberal Party two prominent Quebec MPs threatened to quit at the weekend after the election of former cabinet minister, Mr Jean Chretien, as party leader. Although he is a native Quebecker, Mr Chretien's past efforts to curtail Quebec nationalism have made him many political enemies in the province.

A new less tolerant Canada, Page 2

An Iranian man sits amid the ruins of his home in Rudbar, a town of 20,000 where more than 8,000 died in the earthquake which struck the region last week

# Chase Manhattan to cut workforce and regroup

**By Alan Friedman** in New York

CHASE MANHATTAN, the second largest commercial bank in the US, will today announce a plan to reshape the bank, sell off a number of European assets and achieve nearly $300m annual cuts in costs and overheads.

The restructuring is expected to lead to the eventual elimination, by way of redundancies and attrition, of around 8 per cent of the Chase workforce of 42,000. The bulk of job cuts would go on the wholesale side of the bank and in Europe.

The plan comes in the wake of a $665m loss for 1989 and a 67 per cent tumble in net profits to $44m in the first quarter of this year. The bank's 1990 consolidated net profit, following the likely restructuring charges and one-time gains from asset disposals, is expected to reach more than $300m.

The reorganisation will be spearheaded by Mr Tom Labrecque, the Chase president who was last week named chairman and chief executive. He said his aim was to achieve "a better match of resources and revenues."

The plan is expected to include the following measures:

- The three-banks-in-one structure of Chase will be eliminated and overall management will become more centralised. At present Chase is divided into an individual bank for consumer business, a global bank for corporate finance and capital markets activities, and an institutional bank for transaction and payment processing as well as specialised lending such as property, commodities and leasing.
- Job cuts in Europe will be accompanied by a shift to a cross-border approach in functional industry areas, replacing traditional country-by-country local banking.
- The bank will seek to sell property in Frankfurt, London and Madrid.

Interview, Page 22

# Iran is hit by fresh earth tremor as death toll rises

**By Our Foreign Staff**

ANOTHER big earth tremor rocked Iran's devastated Caspian region yesterday compounding the misery of survivors and impeding relief efforts after a far more powerful earthquake killed up to 50,000 people on Thursday.

The national news agency IRNA said the new quake, measuring 5.7 on the Richter scale, jolted the Gilan provincial capital of Rasht, triggering landslides that blocked main roads. There was no immediate report of fresh casualties.

International supplies, meanwhile, have been rushed into the country from diplomatic friends and foes alike, ending the virtual isolation of the Islamic republic following the 1979 revolution.

Initial mistrust of foreign help and workers appears to have faded as the full scale of the disaster has unfolded. An estimated 100,000 are injured and 500,000 homeless.

Hundreds of relief workers poured into Iran with France, Britain, Japan and the Soviet Union leading the way. Others quickly followed including such longtime enemies as the US and Egypt.

The massive international aid effort has startled hardliners in Iran but appears to have boosted the position of more moderate President Ali Akbar Hashemi Rafsanjani who is seeking to promote Tehran's relations with the West.

President Rafsanjani said after visiting the devastated Caspian provinces of Gilan and Zanjan on Friday that the quake damage was on such a scale that foreign aid was needed. "It is like a small country that must be rebuilt from scratch," he added.

He particularly appealed for medical and specialised equipment, including four-wheel drive vehicles and bulldozers.

"The disaster was of such a horrifying magnitude that in some villages even a single person did not survive to bury the dead," said one survivor

Continued Page 18

# EC ready to back aid plan to Moscow despite UK objections

**By Philip Stephens, David Buchan and Kieran Cooke** in Dublin

EUROPEAN COMMUNITY leaders appear ready to back plans for a western aid programme for the Soviet Union despite strong objections from Mrs Margaret Thatcher.

During a two-day EC summit in which Mrs Thatcher risks falling out of step with her European partners on a range of issues, the leaders are also expected to reject Britain's calls for an immediate relaxation of sanctions against South Africa.

Mr Charles Haughey, the Irish Prime Minister, who will chair the Dublin summit, said yesterday that he expected a lengthy discussion among the 12 on ways that the Community could "come to the assistance of the worsening Soviet economy."

Britain's view is that while the EC should underline its support for Mr Gorbachev, financial help on the scale called for by France and West Germany would risk proving counter-productive by slowing the pace of economic reform.

Despite Mrs Thatcher's clear opposition to a large-scale aid package, Mr Haughey indicated that there was widespread support among other governments for urgent financial help to bolster the position of President Mikhail Gorbachev.

Mr Jacques Delors, the Commission president, is keen for the Community to produce a common response which he and leaders of the bigger EC states can present to next month's western economic summit in Houston.

However, Commission officials, scrambling to work out options at Mr Delors' behest, say that if the Community as a whole or its member states were to offer Moscow more than limited technical aid, there would have to be "an International Monetary Fund-type of investigation of the Soviet economy." Their initial reaction has been one of deep pessimism about the ability to combine effective help for the Soviets with some security for western lenders.

Mr Haughey is said by his officials to be anxious to avoid an open rift between Mrs Thatcher and her partners. They indicated, however, that they expected her to be at odds with the mood of the summit on several issues.

The Irish Prime Minister said yesterday that the summit would offer its support for the reform process instituted by President F W de Klerk, but would resist Mrs Thatcher's call for an early EC-wide relaxation of sanctions.

A senior UK official virtually conceded last week that any British push in Dublin to remove sanctions would fail, adding that "we hope the way will be open before too long, even if not at Dublin, to modulate sanctions to take account of progress in South Africa."

**De Maizière backs Berlin for capital; European Commission finds added value in pragmatism, Page 4**



## CONTENTS

### THE MONDAY INTERVIEW

Governors of the Bank of England have traditionally cultivated an aura of discretion, bordering on inscrutability. But Robin Leigh-Pemberton has recently shown he does not fit this mould quite as well as the government might like



## FT SURVEYS THIS WEEK

### Tomorrow: FRANCE

President François Mitterrand's drive to make France a decisive force in forging a single Europe causes tensions at home.

Collor announces measures to fight inflation as his popularity plummets

# Industrial policy reform for Brazil

By Christina Lamb in Rio de Janeiro

BRAZIL is to announce a new trade and industrial policy this week, in the latest of a series of economic reforms by the government of President Fernando Collor.

The measures expected today were disclosed in a surprisingly downbeat speech to the nation by the usually audacious Mr Collor to mark his first 100 days in office.

His adjustment programme to defeat inflation has been running into increasing problems and, according to a national poll in a leading newspaper, his support has plummeted from 71 to 36 per cent in three months. But Mr Collor said the government would not weaken its resolve and defended the plan as "the best means to confront the drastic situation we had reached. The alternative was hyperinflation, unemployment, bankruptcy, destabilisation and chaos."

Insisting that inflation "can be, is being and will be defeated", he said his government had brought it down from 84.3 per cent a month to 10 per cent as he had promised, though it is once more rising.

Mr Collor also said that the government would announce a new wage policy this week to try to resolve the controversy over its attempts to de-index wages from inflation, a measure rejected by Congress and declared unconstitutional by the Supreme Court. Workers are demanding 160 per cent pay increases to cover inflation from March and there are *strikes across the country.*

On Friday 9,000 workers occupied the Ford plant in São Paulo in reaction to 100 dismissals. Government attempts to hammer out a wage and price freeze with unions last week failed and, in his speech, Mr Collor blamed the "intransigence of a few" in a thinly veiled reference to CUT, the largest union.

Analysts were disappointed by the speech, which had been expected to launch a new phase. Mr Bolivar Lamounier, a leading political scientist, commented: "He presented a *campaign speech at a time* when something else was needed. It's no use presenting as total victory something that everyone knows was not. He missed an opportunity to call for a national consensus."

## Belgium warns Mobutu

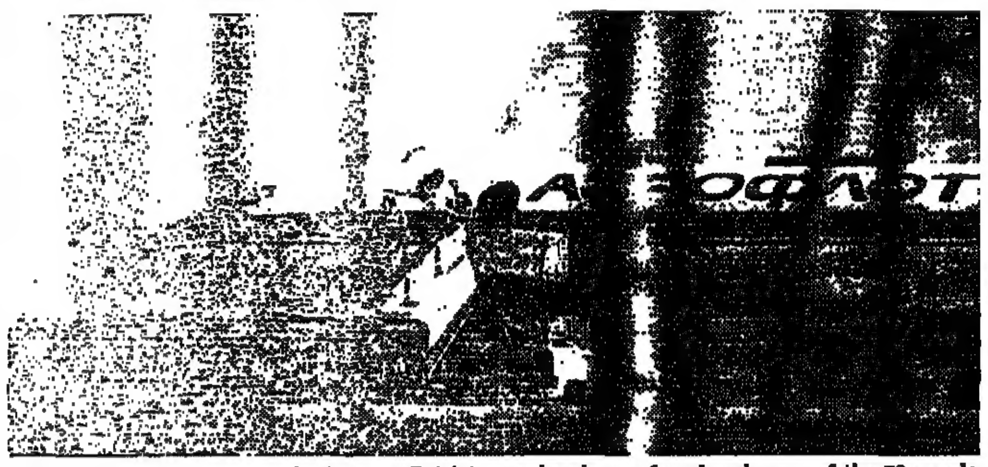
By David Buchan in Brussels

MR Mark Eyskens, Belgium's Foreign Minister, yesterday warned President Mobutu Sese Seko's Zairean government that carrying out its threat to expel all 700 Belgian aid workers would do "irreparable harm" to Zaire's economy.

With Belgium's relations with the leader of its former colony undergoing yet another cyclical deterioration, Mr Eyskens repeated yesterday in a television interview that if the Mobutu government had nothing to hide about last month's massacre of dissident students in Shaba province, it should allow an international inquiry.

He paid tribute to a Zairean *parliamentary inquiry which* had established Belgium's claim that "serious and bloody" events had occurred at Lubumbashi university, but suggested this internal inquiry did not, and could not, go far enough in pinning blame.

On Friday, the Zairean authorities rejected an Belgian offer of debt relief, said that Belgian aid workers (700 of the 13,600 Belgians in Zaire) would be asked to leave, and cut the number of flights to Kinshasa by Sabena, the Belgian carrier, from four to two a week. The same restrictions in 1989 helped push Sabena, which now has British Airways and KLM as minority shareholders, into the red.



Police investigators leave a Soviet Aeroflot jet which had been hijacked on a Tallinn-Lvov flight by a man claiming to have a bomb, and forced to fly to Helsinki. The man surrendered; no bomb was found and none of the 78 people aboard was hurt.

It was the second time in six days that a Soviet airliner had been hijacked to Finland.

## Barry – victim or high-roller?

*By Lionel Barber in Washington*

THE TRIAL of Mayor Marion Barry of Washington DC continues this week, with the prosecution expected to produce more damaging evidence of the mayor's involvement with drugs.

After three days of testimony, the allegations have presented a vivid portrait of the high-rolling black mayor, his network of cocaine-based friendships, and a city police force which preferred to look the other way.

Mr Barry, who has cast himself as the victim of racial harassment by the authorities, is charged with a 14-count indictment of perjury and cocaine possession.

The perjury charges are the most serious, since they are felony counts which carry a mandatory prison sentence. The charges relate to grand jury testimony earlier this year in which the mayor allegedly lied about his relationship with Mr Charles Lewis, a convicted drug dealer.

Mr Lewis, chief witness for the prosecution, described how he supplied the mayor with cocaine and how they both smoked crack cocaine together. A second witness told the jury how he discovered Mr Barry slumped on a toilet seat in a downtown hotel in a bathroom full of smoke. "You must be Santa Claus," said the waking mayor.

The striking feature to date is how Mr Kenneth Mundy, the mayor's defence attorney, has let most the accounts from the witness stand go unchallenged as facts. Instead, he has focused on discrediting the prosecution's witnesses' motives for giving evidence.

Mr Lewis entered a plea bargain whereby he has been promised a lighter sentence in return a guilty plea and his future co-operation with the authorities. At least one other key prosecution witness has made similar arrangements.

# A new, less tolerant Canada ahead

**Bernard Simon** looks at the collapse of the Meech Lake accord

CANADA changed at the weekend. The collapse of the Meech Lake constitutional accord has at best interrupted – and at worst ended – the spirit of compromise that has long been a hallmark of Canadian politics and society.

With the failure to define Quebec's role in the Canadian federation, a less tolerant mood is emerging, where partisanship, ideology and regional jealousies are more likely to hold sway.

The harsher climate has already made itself felt. Within 24 hours of the failure of Manitoba and Newfoundland to ratify the accord, Mr Robert Bourassa, the Quebec premier, said the francophone province would take no further part in constitutional talks, not just on Quebec's own position, but also on issues of concern to western provinces and aboriginal Canadians.

The mood was aptly captured by the black armbands worn by some delegates on Saturday at the convention in Calgary to pick a new leader for the opposition Liberal Party. The choice of former cabinet minister Mr Jean Chretien, a fervent federalist, was overshadowed by deep and vocal divisions on the constitutional issue. Immediately after Mr Chretien's victory, two Quebec nationalist MPs threatened to quit the party.

While no one is contemplating riots in the streets or political terrorism, the divisions opened up by Meech Lake will inevitably bring some fundamental changes to the world's eighth biggest economy and, as a result, to the international community's view of what has hitherto been one of the world's most stable political and economic systems.

It was no accident that Prime Minister Brian Mulroney, in his television address to the nation on Saturday, went out of his way to reassure foreign investors. While acknowledging that "we have missed an opportunity to turn the page and start a new chapter," Mr Mulroney echoed a widely-held hope that "the failure to ratify the accord was not the failure of Canada."

Recognising how high the stakes are, many political leaders in both English and French-speaking Canada have rushed in the past two days to minimise the damage to the national fabric. Even Mr Bourassa, who is under intense pressure to use the rejection of Meech Lake to advance the separatist cause in Quebec, emphasised that "Quebec was not isolated" in the messy final weeks of acrimonious debate on the accord. Anglo-Canadians were encouraged that Mr Bourassa made his televised statement on Saturday flanked both by Quebec's blue-and-white fleur-de-lys flag and Canada's red-and-white maple leaf.

Mr Mulroney and the premiers of several English-speaking provinces have been equally anxious to convince the 6.5m Quebeckers that the demise of Meech Lake should not be interpreted as a rejection of Quebec. Mr Joseph Ghiz, premier of Prince Edward Island, described Mr Bourassa's response as a "cautious, prudent federalist approach".

Mulroney: reassured foreign investors

### Meech Lake highlights

- **Recognition of Quebec as a "distinct society" with the right "to preserve and promote [its] distinct identity".**
- **The federal government must negotiate agreements with any province wanting wider authority over selection of immigrants.**
- **A voice for all provinces in selecting Supreme Court judges.**
- **A right to compensation for all provinces choosing to opt out of shared-cost programmes, if they develop their own compatible with national standards.**
- **Unanimity among provinces for changes in national institutions, such as the Senate and House of Commons.**

But healing the wounds opened by Meech Lake will take much more time and effort. The accord was originally drawn up in 1987 with the aim of bringing Quebec fully into the Canadian union, but became instead the focus of all the country's linguistic, regional and racial problems.

The accord would have given Quebec the right to "preserve and promote" its "distinct" identity, as well as transferring a number of extra powers both to Quebec and to the other nine provinces.

But as the debate has continued over the past three years, Meech Lake has revived many old tensions, of which the animosity between French and English is only one. Other disaffected groups have come to blame their problems and hang their hopes on Meech Lake. Native people, women and ethnic groups have demanded the same special status as Quebec. Western and Atlantic provinces wanted the accord linked in some way to their demand for more clout in Ottawa in the form of a stronger Senate.

The tension grew as the debate broadened and pressure rose to meet the June 23 deadline for ratification by all 10 provinces. A gruelling, seven-day negotiating session between Mr Mulroney and the 10 premiers this month further soured the atmosphere between Ottawa and Quebec on the one hand, and the two hold-out provinces of Manitoba and Newfoundland on the other.

Despite a promise at that meeting that they would their utmost to bring Meech Lake to a vote in their legislatures, last Saturday passed without either of the dissident provinces doing so. In Manitoba's case, the vote was stalled by the tenacious tactics of the only aboriginal member of the legislature. The Newfoundland vote was suddenly *called off* last Friday amid a flurry of accusations between the federal and provincial governments.

Mr Mulroney has blamed Newfoundland for the collapse of the accord. But many Canadians across the political spectrum are pointing their fingers at the prime minister himself, in the first place for making the divisive accord one of his government's highest priorities and, more recently, for his strong-arm tactics to get it passed.

A big question mark now hangs over Mr Mulroney's *political future*. Although the next election is not due for another two or three years, opinion polls give his Conservative government an approval rating of only 15 per cent.

But the demise of Meech Lake also creates a severe test for the opposition Liberals. The party was sharply divided on the pact and, as an avid federalist, Mr Chretien, the new leader, has few friends among Quebec nationalists.

Finding a united position on Quebec and laying the groundwork for a strong Liberal organisation in the province ahead of the next election (Quebec accounts for about a quarter of all members of parliament) will be no easy task for Mr Chretien.

Some observers expect both main political parties to break up, unless Mr Mulroney, Mr Chretien and Quebec's Mr Bourassa are quickly able to bring down the political temperature. A handful of separatist-minded Quebec MPs, including one of Mr Mulroney's most senior ministers, have recently left the two main parties to sit as independents in parliament. At least a dozen more have been thinking of joining them.

Similarly, growing disaffection in western Canada on both political and economic grounds could bolster the fledgling Reform Party, a right-wing group which last year gained its first member of parliament.

Exhausted by the Meech Lake exercise and worried about the country's future, virtually all Canada's politicians – with the exception of the Quebec separatists – have agreed over the past few days that it would now be wise to take a long breather from constitution-making.

*Mr Chretien said on Saturday evening in* Calgary: "The prime minister has put us for too long in a pressure cooker. Now is the time to turn off the stove."

If that can be accomplished, there may yet be some hope for eventually reincarnating what Mr Mulroney called "a truly united, generous and tolerant Canada".

INTERNATIONAL NEWS

# Sharon gives way over settling Soviet migrants

By Judy Maltz in Jerusalem

MR Ariel Sharon, Israel's hawkish housing minister and a leading advocate of Jewish rule in the West Bank and Gaza Strip, said yesterday that Soviet Jewish immigrants would not be settled in occupied Arab lands.

His statement coincided with mounting pressure from the US and the Soviet Union against the settlement of Soviet immigrants in the occupied territories.

In his first formal declaration since assuming his new post in the hardline Likud government, Mr Sharon said: "Because of the problems involved, immigrants will not be sent across the green line [the borderline marking pre-1967 Israel]."

Israel has insisted all immigrants are free to choose where they wish to reside and there is no policy to settle them across the green line. Very few of the 43,000 Soviet Jews who arrived in Israel this year have, in fact, settled there.

"That does not mean that this national government has changed even for one minute its understanding of the strategic importance of Jews living and holding... the strategically important terrain," Mr Sharon added, referring to the West Bank and Gaza Strip. The government, however, would not be building immigrant housing there.

Mr Sharon is expected this week to produce a comprehensive plan for housing the immigrants, to focus mainly on building projects in the less populated regions of the Galilee and the Negev desert.

Palestinians fear that any increase of the Jewish population in the territories will be at their expense and Soviet President Mikhail Gorbachev says he will reconsider reformed exit laws if his country's Jewish emigrants settle on occupied land.

Israel expects the influx of Soviet Jews to reach 250,000 this year alone. At least 1m Soviet Jews have applied for exit visas.

Many Jews leaving the Soviet Union are prevented from going to their preferred destination, the US, by quotas.

● Mr Moshe Arens, the Defence Minister, has ordered the establishment of a civil guard in the occupied West Bank to protect Jewish settlers. The step has aroused considerable controversy.

The announcement was made as the Defence Ministry unveiled a plan aimed at ensuring the safety of Jewish settlers and travellers in the occupied territories. The plan also calls for bolstering army forces on key highways in the West Bank.

In one of his first acts as defence minister in the new government, Mr Arens has made it clear the security needs of Jewish settlers living in the midst of the Palestinian uprising would be high on his agenda.

His announcement coincided with a foiled seaborne attack on Israel's northern border on Saturday, in which two gunmen were killed by the Israeli navy. A Lebanese Sunni Moslem group, Dawn Forces, said it carried out the attack.

In another incident on Saturday, four civilians, including two tourists, were hurt when a bomb exploded at the Ein Gedi beach on the Dead Sea.

The defence ministry said yesterday the civilian forces would operate only in big Jewish towns, where they would be under the supervision of the local police.

In a similar move, the newly appointed Likud police minister, Mr Roni Milo, yesterday announced plans to bolster Jerusalem's civilian guard to combat the increasing violent incidents in Arab East Jerusalem, where two Palestinians were killed last week.

Bangkok police shovel more than 33,000 counterfeit watches, bearing such names as Rolex and Omega, under a steamroller on Saturday.

# Japan overtakes US as aid donor to developing countries

By Ian Davidson in Paris

JAPAN overtook the US as the world's largest aid donor to developing countries for the first time last year, with net disbursements of $8.96bn (£5.20bn), compared with US disbursements of $7.66bn, according to the latest report on western aid flows by the OECD-based Development Assistance Committee (DAC).

The size of the gap between the aid efforts of the two countries is largely a statistical aberration, due to the bunching in 1988 of heavy US payments to multilateral aid institutions, including two instalments to the International Development Association (IDA), the soft-loan arm of the World Bank.

On paper this gives the misleading impression of a steep increase in US aid transfers in 1988, followed by a steep decline in 1989.

But the underlying trend of aid policy in the two countries has nevertheless carried Japan ahead of the US, and DAC calculations suggest it is likely to stay there for some years.

According to Mr Joe Wheeler, DAC chairman, Japan expects to achieve net aid disbursements of at least $31bn over the next three years, so as to provide at least $50bn in official development assistance in 1988-92. US aid transfers are likely to recover at least to the $9bn annual average level of recent years.

The largest proportional increases in development aid last year were by France and Germany, followed by Japan. Despite Japan's leading position, its aid effort as a share of gross national product is still relatively modest. Last year, its aid/GNP ratio was 0.32 per cent, compared with 0.15 per cent for the US, and 0.51 for all other DAC countries.

The effect of the bunching of US transfers to IDA in 1988 also showed up in an overall decline in official development aid by western countries in the DAC, from $48.1bn in 1988 to $46.5bn in 1989, a 2 per cent decline in real terms, after discounting changes in prices and exchange rates.

Mr Wheeler forecast a modest increase in western development aid flows in the years ahead, in line with the past trend.

Over the past decade, development aid by DAC countries has increased by an average of 2.9 per cent per year in real terms, or 33 per cent for the decade. By contrast, development aid by Arab countries has shrunk during the same period from $13.5bn in 1980 to $1.2bn in 1989.

● Michael Prowse adds: Britain is one of the least generous aid donors in Europe, according to DAC figures.

In 1989, British overseas development aid (ODA) was £1.58bn or 0.31 per cent of gross national product. This compares with 0.39 per cent of GDP in Italy, 0.41 per cent in West Germany, 0.78 per cent in France, 0.94 per cent in the Netherlands and 0.98 per cent in Sweden.

Ms Ann Clwyd, shadow minister for overseas development, condemned the UK's record, pointing out that the aid budget was 0.51 per cent of GNP when Labour left office in 1979. In percentage terms, Britain was then the second largest donor among the Group of Seven leading industrial nations; last year Britain was second to bottom, with only the US contributing a smaller fraction of national income.

"If the Tories had maintained Labour's aid commitment," said Ms Clwyd, "the Third World would be £8bn better off in real terms."

British aid is slightly up on the 1987 low of 0.28 per cent of GNP, but it remains far short of the United Nations target of 0.7 per cent. In 1983, Mrs Thatcher pledged that Britain would move towards the UN pledge when economic circumstances permitted.

# Egyptian minister in US for Mideast peace talks

By Lionel Barber in Washington

MR Esmat Abdel-Maguid, Egypt's Foreign Minister, is to hold high-level talks with the Bush administration today in a joint move aimed at keeping Middle East peace efforts alive.

The Egyptian mission follows a weekend telephone conversation between President George Bush and President Hosni Mubarak of Egypt, just days after the US suspended its contacts with the Palestine Liberation Organisation.

The administration views Egypt as the most important Arab state in the region because of its moderation, its willingness to deal with Israel, and its role as a channel for high-level contacts with the PLO.

Last week's suspension of the US-PLO dialogue has, however, changed the equation. Without the talks, the PLO is unlikely to go along with previous US diplomatic efforts – using Egypt as an intermediary – to persuade Palestinians from the occupied territories to enter into a dialogue with the Israeli government.

Mr Abdul-Maguid is expected to meet Mr James Baker, US Secretary of State, to discuss future tactics aimed at breaking the current impasse and to give an assessment of the mood among Arab states.

Mr Baker is expected to assure the Egyptian foreign minister that the US is prepared to renew the PLO dialogue as soon as Mr Yassir Arafat, PLO chairman, condemns the May 30 guerrilla raid against Israel and takes steps to discipline those responsible.

# Walkie-talkie aid to boost China's image

By Peter Ellingsen in Peking

CHINA, embarked on a diplomatic flurry it hopes will smother the odium of last year's Tiananmen Square massacre, is manoeuvring to remove Western sanctions, restore relations with Indonesia, and cosy up to football's World Cup heroes, Cameroon, by handing over a photocopier and six walkie-talkies.

The friend-finding mission, ahead of September's Asian Games in Peking, has already partly paid off, with Japan announcing plans to lobby the Group of Seven industrialised nations to lift sanctions against China during the economic summit in Houston next month.

Even before Politburo member Li Tieying arrives in Tokyo this week, Japanese officials were talking about closer ties with China, and an end to the ban on soft loans, high-level contacts, and trade exchanges imposed after the killing of an estimated 1,000 civilians in the Tiananmen Square crackdown a year ago.

Tokyo is eager to resume its former links with Peking, including the nearly $6bn (£3.5bn) loan granted for capital works in late 1988. At that time, China was still the "cuddly communist", receiving world leaders, including former Japanese Prime Minister Noboru Takeshita, President George Bush, and Indian Premier Rajiv Gandhi. Since the massacre, Peking has seen only obscure third world leaders mounting the steps of the Great Hall

Diplomats said Li, a friend of Mr Toshiki Kaifu, the Japanese Prime Minister, would be pressing Tokyo for an early end to the sanctions that have badly hurt Peking's status and economy, and forced the postponement of crucial projects.

They say Tokyo is eager to resume full relations, but would prefer other members of the western alliance to move at the same time.

While the west ponders its position, Mr Ali Alatas, the Indonesian Foreign Minister, will be in Peking for talks with his Chinese counterpart, Qian Qichen. The four-day visit, early next month, is being seen as a chance for a restoration of relations, severed after Jakarta accused China of backing the Indonesian Communist Party in the abortive coup of 1965. Rapprochement between the two began during Qian's visit to Jakarta in February last year, but has been hampered, officials believe, by doubts among the Indonesian military.

Ending western sanctions, and reviving diplomatic ties with Indonesia, would greatly improve China's international standing, and free much-needed funds for crucial projects such as power stations, roads and railway lines. Since June last year, Peking has concentrated on its links with third world nations but with little advantage to its diplomatic aims, or its troubled economy.

Typical is the decision at the weekend to give about $24,000 in office toys to the Cameroon Parliament. China's National Peoples Congress, citing the wish for "closer ties", handed over a photocopier and six walkie-talkies, through its embassy in Yaounde, but can hope for little back, save perhaps, associated glory, if Africa's soccer stars ascend even further in World Cup competition.

The Financial Times (Europe) Ltd
Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiolleltstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1990.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: B. Hughes, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Sir Geoffrey Owen. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41. Fax (01) 935335.

# Moscow intends to get more out of its gold

By Kenneth Gooding, Mining Correspondent, in Venice

THE SOVIET UNION, the world's second largest gold producer, has applied to join the World Gold Council, the promotional body supported by more than 90 western mining companies, including 31 from South Africa.

The country also plans to become a big exporter of gold jewellery to the west, said Mr Eugene Kompaneitzev, deputy head of Glavalmazzoloto, the Soviet state department for precious metals and diamonds.

"There is only a certain amount of gold in the ground, and we want to add as much value to it as possible," he explained yesterday.

Glavalmazzoloto has applied to join the WGC on behalf of some of the Soviet Union's gold producers. The WGC will give jewellery-makers represented by Glavalmazzoloto advice about design and distribution networks in the west.

Glavalmazzoloto's application to join was considered at the WGC annual meeting, timed to take place just before the Financial Times' World Gold Conference, which opens in Venice today.

There was some debate among western mining companies, which pay a levy of $2.50 to the WGC on every ounce of gold they produce, about whether a relatively small part of the Soviet Union's gold industry should be permitted to join and receive help which could be passed on.

But Mr Elliott "Chic" Hood, chief executive of WGC, said yesterday that Glavalmazzoloto would become a member shortly, after a few minor details were settled. He said he expected "small beginnings eventually to lead to bigger things."

He pointed out that membership of the WGC would represent considerable investment by Glavalmazzoloto at a time when the Soviet Union was short of hard currency.

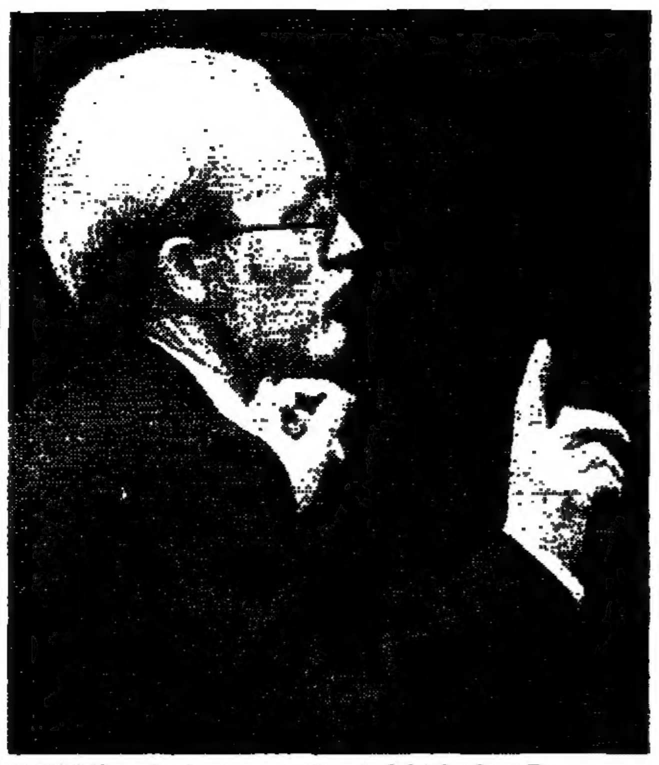
Mr Kompaneitzev said his organisation was joining the WGC because he wanted to upgrade its gold jewellery fabrication and design and to distribute jewellery widely in the west.

He insisted, however, that the relationship between Glavalmazzoloto and the WGC would be of mutual benefit by pointing out that the Soviet Union had been mining gold since 1925 and that Faberge, probably the best-known jewellery designer in history, was a Russian.

Jewellery is the cornerstone of the gold market. Last year it accounted for 1,811 tonnes of gold out of total supplies to the west of 2,723 tonnes, according to the Gold Fields Minerals Services consultancy group.

The western gold industry widely expects that the Soviet Union will break with tradition later this year and give for the first time details of its gold output and reserves.

GFMS estimates that net Soviet Union gold sales to the west last year were 296 tonnes and that the country's gold reserves are about 2,000 tonnes.



De Maizière: step-by-step transfer of ministries from Bonn

## East Germany's Prime Minister says united country must shift eastwards

# De Maizière backs Berlin for capital

By Leslie Colitt in East Berlin

EAST GERMANY'S Prime Minister, Mr Lothar de Maizière, has spoken out strongly in favour of Berlin as capital of the new Germany, arguing that the united country must shift eastwards.

In an interview with the Financial Times, Mr de Maizière sharply criticised West German politicians who opposed the choice of Berlin. "We will have to speak very plainly with each other about Berlin," he said.

He said the forthcoming East-West German state treaty on legal relations would have to guarantee Berlin as the future capital, a demand underscored at the weekend by Mr Walter Momper, the Social Democratic (SPD) mayor of West Berlin.

The independent-minded East German leader, a Christian Democrat well to the left of *Chancellor Helmut Kohl's* Christian Democratic Union, flatly rejected arguments put forward by Mr Kohl among others that Soviet troops would have to leave East Germany before Berlin could become the seat of government.

He said some people appeared "happy" with the Soviet troop presence as an excuse for not allowing Berlin to function as a capital and he called for a step-by-step transfer of West German ministries from Bonn to Berlin.

A united Germany would have to become more "eastern" because the midpoint between Warsaw and Paris "is not Bonn but Berlin," he said.

Mr de Maizière also warned the west not to abuse its "position of strength" in negotiating with the Soviet Union in the "2 plus 4" talks on German unity.

He will hold talks with Mrs Margaret Thatcher, the British Prime Minister, in London on Wednesday, rounding off his inaugural calls on the three western allied capitals.

He said that western allied insistence that a united Germany must belong to Nato could cause problems with the unification process. In the latest round of talks in East Berlin last Friday, western foreign ministers rejected Soviet proposals for the withdrawal of all troops from greater Berlin within six months.

Mr de Maizière warned that the Soviet leadership could not absorb what would be seen domestically as a defeat by the west "politically and psychologically. I do not believe this would serve the interests of a united Germany. Germany never fared well when it was at odds with Russia."

The East German leader suggested that the four Second World War allies could no longer proceed from the basis of the former cold war alliances. They would have to aim for a future European security arrangement and lay down the steps needed to achieve it in the "2 plus 4" talks.

With an eye to monetary and economic unification next Sunday, when the D-Mark is introduced in East Germany, Mr de Maizière said it was "distressing and a bit undignified" to reduce unity to a question of money alone. But economic factors had played a powerful role in the East German elections last March and, after 40 years of scarcity, this was not "indecent."

Hinting at his possible political future after unification, Mr de Maizière said that, if an all-German Government decided to create a ministry responsible for the former East Germany, that "could be something which would interest me."

# Russian party confronts Gorbachev with tough choice

By Leyla Boulton in Moscow

A DELEGATE who accused wooden dolls of insulting Lenin's memory provided one of the more light-hearted examples of the deep-rooted conservatism of the new Russian Communist Party during its founding congress last week.

The *matrioshki*, bought mainly by tourists, usually consist of a large painted doll representing President Mikhail Gorbachev and containing successively smaller predecessors ending with Lenin.

But the congress, at which speaker after speaker denounced Mr Gorbachev's leadership, also confronted the Soviet President with a deadly serious choice. Either he ditches the conservatives, who constitute a majority in the Communist Party of the Soviet Union, or he pins his political survival on an organisation that is unlikely to survive without sweeping reforms.

Although Mr Ivan Polozhkov, the conservative elected to head the Russian party, caused surprise on Saturday by immediately pledging support for Mr Gorbachev, it is not clear they have anything in common on key issues such as economic reform.

As party boss of the southern Krasnodar region, Mr Polozhkov closed down new-style co-operative businesses.

In an election campaign speech on Thursday which was met with rapturous applause, Mr Polozhkov said the party was being destroyed from within by the leadership's policies and called for a slowdown of economic reform.

Responding to the criticism, Mr Gorbachev appealed for the party to stick together at its crucial congress next month, saying a split would be "a gift to those who want to bury perestroika and defeat it".

Declaring that he would keep his post as party general-secretary for the time being because of "the most crucial situation facing the country", he also served notice that there would no U-turn on the transition to a regulated market economy.

Mr Gorbachev also dismissed allegations by restive military men in the party that he had weakened the country's defences with his policies of disarmament and of setting eastern Europe free from Soviet domination.

However, Mr Yegor Ligachev, the politburo hardliner who demanded Mr Gorbachev's resignation as party boss, is unlikely to let matters rest there. Like many other conservatives, he wants to use 28th party congress, which starts in a week's time, to make a stand against Mr Gorbachev's policies.

While it is not yet clear how Mr Gorbachev will jump at the congress, a key ally in the ruling politburo, Mr Alexander Yakovlev, warned conservatives that the party would be swept aside unless it changed its ways.

"It is time to work in a really new way otherwise people will say the party is not up to the needs of the time and nobody will care whether it splits, regroups, or consolidates itself," Mr Yakovlev told Pravda on Saturday.

# Growth in construction set to slow

By Andrew Taylor

GROWTH IN European construction output will slow considerably during the next two years as interest rate rises inhibit private investment in housing, offices and shops, according to forecasts by 15 European countries. The exceptions are Germany and Spain.

Euro-Construct, an organisation representing European construction research agencies and economic forecasting bodies, says growth in European output is expected to more than halve to 2.2 per cent this year and rise by only 1.5 per cent next. This compares with growth rates in 1988 and 1989 of 5.4 per cent and 4.8 per cent.

Output is expected to fall in Britain, the Netherlands and Scandinavia during the next two years. In Italy, France, Belgium and Switzerland, growth rates which had risen sharply at the end of the 1980s are likely to slow substantially.

High interest rates imposed by several governments to counter large increases in credit and prevent economies from overheating are having an adverse impact on private investment in housing and commercial property.

Pressures on local authority spending and tax reforms in several countries are also restricting housing investment. Housing output is expected to grow by only a quarter of 1 per cent this year and a third of 1 per cent next year.

The exceptions will be in West Germany, where investment is likely to increase sharply to meet greater demand for rental accommodation following reunification, and in Italy, where public and private house building is expected to rise as a result of political pressures and recent growth in the economy.

Total German construction output, boosted by both domestic and inward international investment, is forecast to rise by 5 per cent this year and by 2.5 per cent next. Only Spain, which has benefited from large expenditure on roads, rail and other infrastructure, is forecast to have a higher growth rate.

Total construction output in Spain is expected to rise by 10 per cent this year and 7 per cent next.

*European Construction 1990-91. Euro-Construct, c/o NEDO, Millbank Tower, Millbank, London SW1 P4QX, £110.*

# Mitterrand pressure on his PM over wages

By Ian Davidson in Paris

THE RECENT slump in the popularity of President François Mitterrand and France's Socialist Government may be driving a wedge between the President and Prime Minister Michel Rocard over the rival claims of capital and labour.

In response to the implicit verdict of the opinion polls, Mr Mitterrand has started trying to burnish his image as a Socialist, by proclaiming the case for greater social equality. In particular, he has been loudly urging Government and employers to improve the lot of the lowest paid.

Mr Rocard has publicly acknowledged the existence of a popular malaise, deriving *from the belief that there has* been an increase in social inequality. But he has refused to be stampeded into changing the priorities of his policy of economic prudence.

It is common knowledge that the turn-around of the French economy since the Socialist experiment of 1981-82 has depended heavily on a reduction in the share of national income going on wages. But Mr Rocard claims that income inequalities between various categories have in fact started to narrow during the past two years, and he has faced down pressure from the Socialist Party for a sharp left turn in policy by demanding to be judged on his record at the end of the current parliament, three years from now.

Although the President continues to assert in public his support for his Prime Minister, some commentators claim to detect the opening of a rift which could lead sooner or later to Mr Rocard's dismissal.

A recent review of France's medium-term economic strategy options, published under the auspices of the state planning commission, suggests Mr Rocard's priorities have the support of the most authoritative institutions.

The review implicitly takes issue with Socialist Party claims that the time has come for workers to receive their reward for the economic recovery. On the contrary, it claims that France will not be able to improve its competitiveness, nor reduce its high level of unemployment, unless it continues to restrain wages.

Indeed, it argues that the high level of unemployment, and the mismatch between the shortage of qualified manpower and the over-supply of unqualified manpower, require a widening of wage differentials, at least for a while.

A high level of growth, of at least 3.5 per cent a year, will be required to reduce unemployment, currently running at around 9.5 per cent. Current economic forecasts, official and unofficial, put growth over the next four years at 2.8-3.5 per cent a year on average.

The most striking conclusion of the report is that little or nothing can be done in the short-run to affect the perfor*mance of the French economy.*

# Sceptical bankers detect some merit in Major's Ecu proposal

By Stephen Fidler, Euromarkets Correspondent, in Prague

BRITISH PROPOSALS for the development of a new European currency have met initial scepticism from practitioners, although many believe the plan has some merit.

Commercial bankers and other experts interested in pro*moting the use of the Ecu, the* basket of 12 EC currencies, have been meeting in Prague for the annual meeting and a conference of the Ecu Banking Association.

The scepticism about the proposal to create a so-called hard Ecu – one that would never be devalued – centred on its motive. Some feared it was another British tactic to block the establishment of European monetary union (EMU) and said its credibility had been damaged by last year's now-abandoned UK proposal to have national currencies compete for favour among European users.

There was also a widespread belief that, whatever its merits, the proposal from Mr John Major, the UK Chancellor, has come too late to influence the debate before December's conference of EC member states on how to progress towards monetary union. The alternative Delors process – which envisages progress towards a single EC currency and one central bank in three stages – appeared too far advanced to derail and to have to widespread support in Europe outside the UK.

*Mr Jean-Paul Mingasson of* the European Commission said: "The problem is to know whether introducing a parallel currency into the system will give us more convergence, or monetary disorder."

According to Mr Peter Schlueter of the Bundesbank, it was not clear how the proposal would stop the risk of excessive monetary creation. "What safeguards against these risks can be advanced? In the absence of such safeguards, creating an additional currency could add new problems to those already facing us".

Mr Michael Foot, head of the Bank of England's foreign exchange division, argued that the risks were greater in anchoring the system to the D-Mark, which, he said, "has had a long and successful run as being the most successful currency." But there was no guarantee that was always going to be the case. "It's quite clear that the next two or three years could be quite volatile," he said, in a reference to the costs and impact of German reunification.

Under the proposal, a new European monetary fund would take deposits in national currencies from governments and issue liabilities in so-called hard Ecus. The fund would have "leverage over those currencies that were not following sufficiently hard policies," he said.

The system would not prevent national currencies from devaluing, ensuring national *sovereignty was maintained.* But it would significantly raise the costs of devaluations, because the devaluing central bank would have to compensate the fund for the losses on holding the devalued currency *by delivering to it more hard* currency.

Some bankers said the plan would not, at least for some time, reduce the transaction costs of trading within Europe because there would be more rather than fewer currencies. Some pointed out that the ability of the European fund to, as Mr Major said, "set interest rates by normal central banking techniques" could be constrained and occasionally contradicted by the market.

By imposing such high costs on easing monetary conditions, some believed it could be Draconian in its effects and argued that any British expectation that the system would preserve sovereignty would prove illusory.

**"A NEW *cumbersome detour*" is how Mr Karl Thomas, president of the central bank of Hesse and member of the West German central bank council, describes the British Chancellor's proposals for a parallel hard Ecu currency as an alternative route to European monetary union, writes Katharine Campbell in Frankfurt.**

**In the first official West German response to Mr John Major's plan, Mr Thomas pointed out that "the present system within which the D-Mark plays the role of an anchor seems to be quite *attractive, as can be seen by the recent* move of the Belgian Government to link the Belgian franc to the D-Mark."**

**He added that the unanimously accepted Delors Report had argued that a parallel currency strategy would "complicate the already difficult endeavour of co-ordinating different monetary policies."**

**Moreover, the Ecu was still not seen as a fully-fledged currency that was "reliable and trustworthy like other currencies which are issued by central banks with a proven record for keeping the value of their currencies stable."**

**Speaking at a private dinner in Frankfurt on Friday, Mr Thomas also pointed to gross borrowing requirements by the West German public sector of around DM131bn (£45bn) in the second half of 1990 which represented the first signs of the high level of capital demand as a result of unification. This would lead to a fundamental restructuring of capital flows in coming years and a considerable reduction in the nation's role as a capital exporter, he said.**

# Regional vote gives boost to Gonzalez

By Peter Bruce in Madrid

SPAIN'S governing Socialist Party headed by prime minister Felipe Gonzalez has romped to an easy victory in elections to the regional parliament in Andalucia, making a mockery of a six-month campaign by most national Spanish newspapers and opposition parties to discredit it for alleged corruption.

In Saturday's vote in Spain's biggest province, the Socialists actually increased their share of the vote and won 61 of the 109 seats, one more than they captured in 1986. The result will be a relief to the deputy prime minister, Mr Alfonso Guerra, an Andalucian, whose brother – at the centre of corruption allegations – is said to have made use of a government office in Seville to establish a business empire.

Given the virulence of the press campaign against the deputy prime minister in particular, it had been assumed that the Socialist vote would at least weaken. In the end, both the main national opposition parties, the conservative Partido Popular (PP) and the Communist-led Izquierda Unida (IU), did badly. The PP lost one of its 28 seats and the IU dropped to a humiliating 11 seats after winning 19 in 1986.

The nationalist Partido Andalucista, however, doubled its vote and won eight new seats, taking its total to 10.

Most of the losing parties blamed the Socialist victory on a low 45 per cent turnout, many suggesting voters were disillusioned with Spanish politics. Other observers pointed out that Saturday voting is a rarity in Spain and could have led to many abstentions.

**WORLD ECONOMIC INDICATORS**

RETAIL PRICES (1985=100)

| | May.'90 | Apr.'90 | Mar.'90 | May.'89 | % change over previous year |
|---|---|---|---|---|---|
| Japan | 108.5 | 107.9 | 107.1 | 105.6 | +2.7 |
| Belgium | 110.2 | 110.2 | 109.7 | 106.9 | +3.1 |
| W.Germany | 106.7 | 106.5 | 106.3 | 104.3 | +2.3 |
| US | 120.1 | 119.6 | 119.6 | 115.1 | +4.4 |
| UK | 133.4 | 132.2 | 128.3 | 121.6 | +9.7 |
| France | 115.8 | 115.5 | 115.1 | 112.4 | +3.0 |
| Netherlands | 103.2 | 103.2 | 102.7 | 101.0 | +2.2 |

Source: (except US) Eurostat

# European Commission finds added value in pragmatism

## Brussels has been compelled to change its ideas on VAT by resistant Community member states, writes **Lucy Kellaway**

ONCE UPON a time, not so long ago, the European Commission dreamed of having one rate of value added tax throughout the Community after 1992. The tax would be collected where goods were produced, whether they were to be consumed in Athens, Aberdeen or Amsterdam. There would be one big single market with one VAT system.

The reality looks likely to be rather different. After vainly attempting to persuade EC governments to accept its original ideas, the Commission is now proposing that the different rates should remain and that a "new" collection system, remarkably like the existing one, should be adopted.

The Commission still wants to introduce a production-based collection system in 1996, though this seems certain to face strong opposition from several governments.

Brussels' latest proposals may be weak – and involve a humiliating political climbdown. But they have an advantage over earlier schemes: they are likely to win the necessary unanimous approval of EC governments. Pragmatism has triumphed over principle, and a method has been found that will cause minimum disruption while allowing customs checks to wither away.

As one Commission official commented with grim satisfaction, "We have member states over a barrel. They are committed to getting rid of frontier controls and there is only a limited number of ways of doing that." With just two and a half years to go before the single market at the end of 1992, it is too late to go back to the drawing board. Plans will have to be agreed quickly by ministers, if tax collectors and taxpayers are to have time to get ready for the new scheme.

Conceptually, the proposed system is untidier than the existing one. At the moment there are two VAT systems: one for goods consumed at home, where the tax is raised at each point in the production chain. The other is for goods being exported, which leave home VAT-free, with the tax subsequently levied in the importing country. To stop fraud, goods are controlled at the border.

The plan is to keep these two arrangements and add a third, which would apply to goods moving from one member state to another. All physical checks would be replaced by periodic fiscal declarations in a way which involved the minimum of administrative bother and the maximum protection against fraud.

In practice, however, the Commission's plans are an improvement on present arrangements. All shoppers could buy goods for their own use wherever they liked in the EC, paying only the local rate of tax. They are allowed to do that today, but only up to the travellers' allowances limit. Community governments have promised to abolish these limits by 1992, after which the volume of cross-border shopping is expected to increase.

*That in turn could put pressure on* member states to narrow the gaps between their rates (now ranging from zero to 50 per cent). The only exceptions would be cars and mail order goods, for which the incentive for cross-border purchases is so great that VAT would be paid in the consuming country.



For companies, the system would operate much as at present: goods destined for another member state would be zero-rated and taxed in the consuming country. Customs checks would go, and with them the Single Administrative Document, the cumbersome 50-point EC questionnaire which accompanies each shipment. Instead, companies would simply need evidence that their customer was VAT-registered in his own country. To safeguard against mass fraud, tax officials, who currently operate in isolation from their neighbours, would start to co-operate.

About 80 per cent of companies would be required to fill in two extra boxes on their regular VAT forms, giving totals of their imports and exports within the Community. Bigger companies (which account for four fifths of Community trade) would have a slightly heavier obligation: they would be required to fill in seven new boxes on their return, plus three optional ones.

Expressed thus, the system sounds unobjectionable. Compared to France's alternative proposal – which would have required every member state to keep comprehensive lists of every single delivery moving in or out of their country – it is simplicity itself.

However, there are problems. The Commission has explicitly made its proposals an interim measure which would automatically move over by 1996 to the "origin" principle, under which tax would be collected during production. Most EC governments dislike this, as it would require a mechanism for re-distributing revenues as if the tax had been levied on consumption. No one, it seems, trusts his neighbours to make the system work.

The UK and others argue that if the system worked smoothly, there would be no need to change it in 1996. The Commission seems likely to have to back down yet again and settle for a loose commitment from member states to re-examine the matter in 1996. This would be a heavy defeat, as it would amount to admitting that fiscal frontiers would stay, and that a single market was not achievable.

Furthermore, businesses, which initially responded with pleasure to assurances from the Commission that their paperwork would disappear overnight, are now having doubts. Though the Commission said they would have to fill in only seven boxes on tax forms, it turns out that there would be one box for each commodity and each member state. A company supplying 100 different items to 10 different countries would have 7,000 boxes to complete.

"People who handle VAT in companies were horrified when they saw these proposals," says a tax expert at the Confederation of British Industry. Suppliers were not at all happy at the thought of getting a certificate for each new buyer before they could sell them anything, he added.

Under the new system, companies would take over much of the statistics gathering done by customs officers. Brussels claims that would involve keeping simple totals of imports and exports, though companies fear it could be more cumbersome.

Tax authority statisticians are also unhappy. The Commission's idea of excusing all but the biggest 20 per cent of companies from any reporting requirement would make tax figures less complete. There is also a special problem in products such as secondary aluminium, where the bulk of trade is done by small companies.

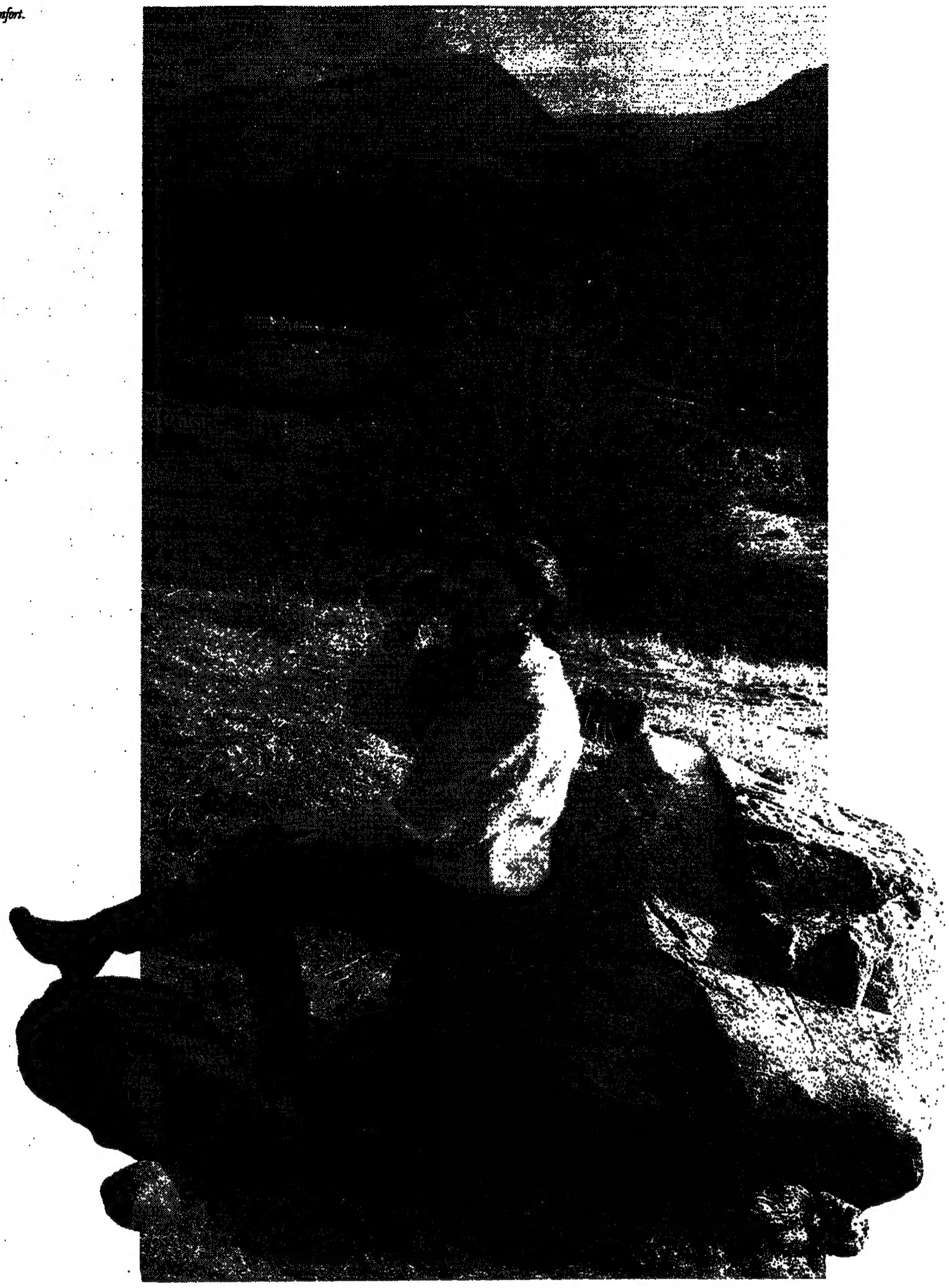
These objections can probably be removed by tinkering with the small print. Others are more fundamental. Several countries, France in particular, oppose any plan that would *involve laying off thousands* of customs officers. In defence of keeping many of the existing controls, they argue that the Commission's proposals are too loose and wide open to fraud.

To make the system fraud-proof, the Commission must find a way of persuading national officials to co-operate. There are wide difference between the ways customs and tax officials operate, for instance, in Britain and France. UK tax officials make frequent surprise visits, whereas in France such visits are exceptional and the documentation immense. The Commission stresses that countries can keep their own tax forms and make them as complex as they like, so long as they contain the new EC boxes.

Co-operation requires trust, and at the moment this is lacking. The UK, for example, is still smarting that Italy, which should have reimbursed some British companies for VAT within six months, takes more than two years to do so.

But in the end, member states, like the Commission, have a powerful incentive to drop their scruples. Failure to agree on a new way of collecting VAT would mean frontiers had to stay, and if frontiers stayed, the most visible benefit of the 1992 master plan would be lost.

*Joan Appleton... An outdoor girl looking forward to more commuting comfort.*



# Every year, Joan Appleton spends three weeks underground.

As a sales attendant at a world famous West End store, Joan Appleton depends on London Underground to get her to and from work. She has to be there at nine o'clock sharp each morning. Six days a week.

It's almost an hour from her home in Epping, 40 kilometres north-east. In a year, that makes over three weeks of travel time. "That's life in this part of the world," she shrugs. "I'm basically an outdoor girl. I love fresh air and open spaces. But if I have to spend that much time underground, I'd like it to be as comfortable as possible."

As much as comfort, she and her fellow passengers also appreciate punctuality: trains that run on time and don't get stuck somewhere along the line. Which, as Joan will tell you, hasn't always been the case. Europe's largest urban population is served by the world's oldest metro system, and it sometimes shows.

But that's changing. In a major renewal programme, ABB traction technology is being applied in a project led by BREL Limited, ABB's UK associate, to supply 680 cars to London Underground's busy Central Line, enabling faster and smoother operation.

The result will be greater comfort, security and better service for London commuters. And Joan Appleton's underground quality of life will show a marked improvement.

*ABB is a world leader in electrical engineering, committed to the development of new and better ways of generating power, getting it to where it is needed, and using it efficiently.*

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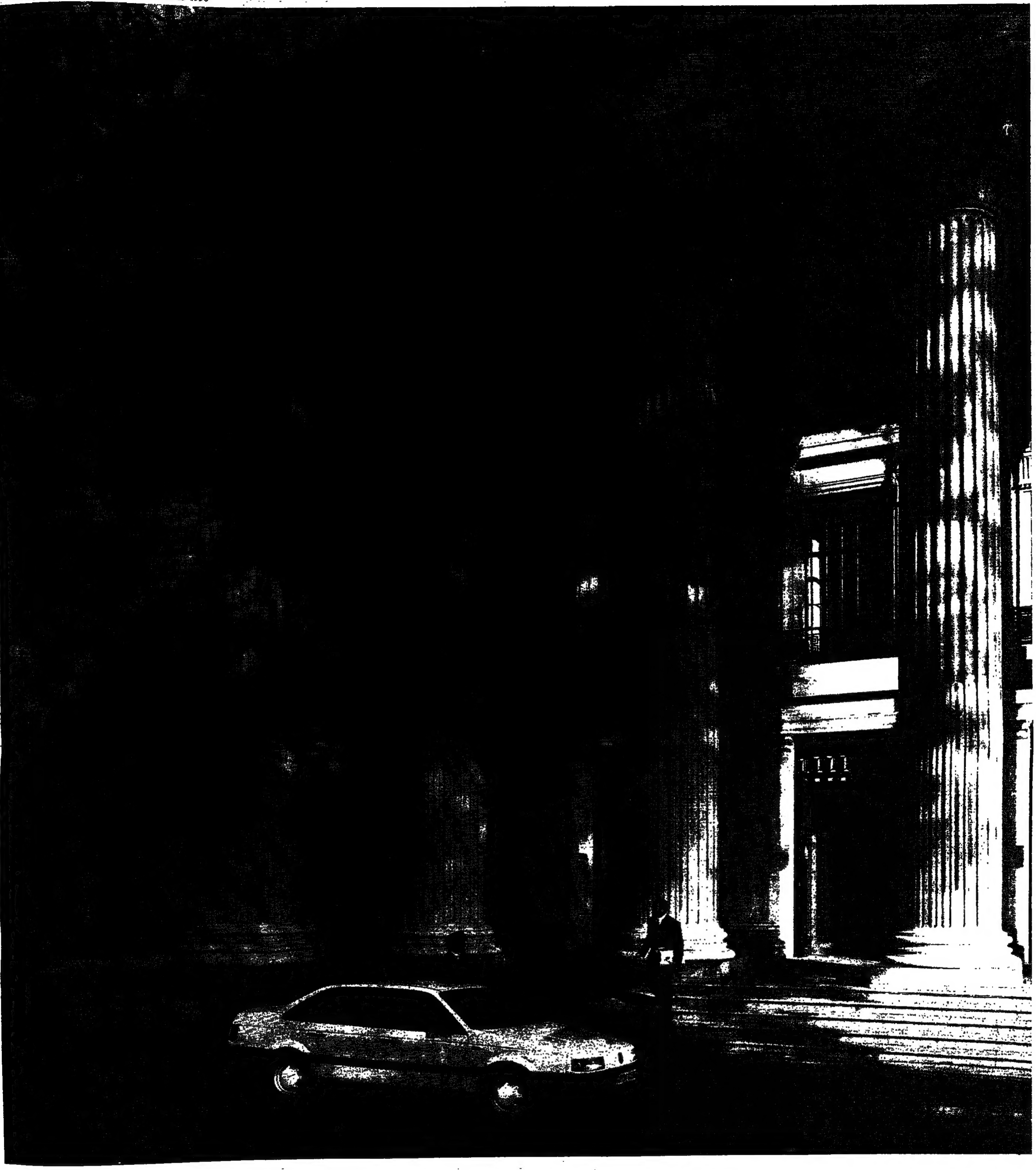


# Bankers react with surprise to attack by Major

By David Lascelles, Banking Editor

BANKERS HAVE reacted with surprise and even annoyance to a sharp attack delivered by Mr John Major, the Chancellor of the Exchequer, on their credit marketing practices.

Addressing the Tory women's annual conference in London before the weekend, Mr Major gave a warning that the Government might impose restrictions on banks and building societies if their voluntary code, which is under preparation, proved too lax.

The Committee of London and Scottish Clearing Bankers said yesterday that the committee preparing the code was working "as hard as it could" and hoped to have it in place by the spring. The committee, which is chaired by Sir George Blunden, the former deputy governor of the Bank of England, expects to begin consulting consumer bodies in the coming months.

The sharpness of Mr Major's comments suggested that he might be concerned that the banks were dragging their feet over the code.

However, he is said to have strong personal feelings about the excessive credit-marketing practices adopted by some lenders.

The banks set up their committee in response to last year's Jack Committee report on banking services. Apart from lending practices, the proposed voluntary code will cover rights of confidentiality, and rules covering accounts, credit cards, loans and disputes.

Among the issues specifically affecting lending practices are unsolicited offers of loans or increases in credit lines, the marketing of loans to minors, and direct mailing. The clear definition of rights and obligations of borrowers was another issue specifically raised by Mr Major last week.

While the banks want to bring forward sound proposals that will end the controversy, they also say that the code must not inhibit competition among providers of banking services – a goal which Mr Major has supported.

Banks and building societies also claim that the main offenders are less reputable institutions that are not subject to effective regulatory or voluntary control.

# Europe development bank will use equities

By David Lascelles, Banking Editor

THE EUROPEAN Bank for Reconstruction and Development, which is being established to help economic reform in eastern Europe, will be able to make up to 30 per cent of its investments in equities.

The high proportion of investment in equities is possible because the bank will also have a high level of paid-in capital, says an analysis of the EBRD published this weekend by the UK Treasury.

It says: "As private-sector companies establish themselves in the region, some will look for equity finance to expand their operations and increase their investment. When appropriate, the EBRD will be willing to take a direct stake in these businesses by buying shares."

The analysis, which the Treasury said was the most detailed so far released about the proposed London-based bank, was contained in the latest Economic Progress Report. The report also says that an important element in the EBRD's work will be investment designed to improve the environment.

Establishment of the EBRD was agreed last month with 42 members and capital of Ecu 10bn (£7.4bn). It is expected to begin its work early next year.

# Poll shows scepticism of state over 'green' issues

By David Thomas, Resources Editor

THE GOVERNMENT has failed to improve its standing on environmental issues with the general public, in spite of its attempt to lead the political debate on "green" issues, a new survey suggests.

Only 19 per cent of people judge the Government to have been effective in tackling environmental issues. The figure has barely changed over the past year, according to the survey, which was carried out for Greenpeace, the international environmental group, by British Market Research Bureau.

Lord Melchett, Greenpeace's executive director, said: "The British public is extremely sceptical of the Government's ability to deliver on critical environmental issues."

Lord Melchett has written a 12-page letter to Mr Chris Patten, the Environment Secretary, setting out in detail why Greenpeace believes that Britain still deserves the tag "dirty man of Europe."

The Greenpeace letter is one of the first shots in what is expected to become an increasingly heated debate over the Government's environmental record in the run-up to publication of the white paper on the environment, due in the autumn.

Lord Melchett accuses the Government of having lagged behind other European countries in a range of environmental issues, including:

- Global warming, on which the targets recently announced by the Prime Minister for controlling UK carbon dioxide emissions are at least five years behind those of other European countries.
- Ozone-destroying chemicals, on which Britain is among the most cautious countries in Europe in backing a phase-out of chlorofluorocarbons by the end of the century.
- Hazardous waste: Britain imported more than 40,000 tonnes of toxic waste last year, making it the "dustbin of Europe" in Lord Melchett's words.

"Britain will remain the dirty man of Europe just as long as its European partners feel the drag of British policies and diplomacy on their progress towards an improved environment." Lord Melchett tells Mr Patten.

The Greenpeace letter also accuses the Government of making misleading claims to justify policies and peddling disingenuous misinformation by exaggerating the strength of its carbon dioxide targets and falsely accusing other European countries of having a worse river-pollution record than Britain.



# Rolls-Royce venture bids for weapons contract

By Alan Cane and David White

A JOINT venture by Rolls-Royce and Babcock International is believed to be the leading contender of three from which the Government will choose a commercial management team to run its atomic weapons activities.

The others bidding for the job of managing the UK's nuclear weapons plants are Hunting-Brae – a joint venture between Hunting Engineering, Brown Root (UK) and AEA Technology – and British Aerospace (Royal Ordnance). The Ministry of Defence said yesterday a decision was expected to be made in the autumn.

The Government announced last December that it intended to seek commercial management to run its nuclear weapons establishments, principally the Atomic Weapons Establishment (AWE) at Aldermaston, Berkshire, which is the main UK centre for the design and manufacture of nuclear warheads.

A facility is being built there at a cost of about £1bn to produce the warheads for the UK's next generation of Trident missiles.

The management changes, described by Mr Tom King, the Defence Secretary, as "contractorisation" as distinct from privatisation, are expected to take place in two phases.

The first, for which the Rolls-Royce/Babcock alliance now seems favourite, will involve an interim contract where commercial managers will advise and consult on the running of the plants but the workforce will remain under government control. In the second phase, the workforce will come under the control of commercial management.

A full move in that direction had been ruled out at Aldermaston for reasons of national security. The proposals there are similar to those already in force at the Royal Navy's Devonport and Rosyth dockyards.

# One-woman show delights the Tory ladies

**Alison Smith** watches the Prime Minister steal the limelight in front of her loyal fans

THE AUDIENCE would probably have been ecstatic even with a less professional performance than the polished one-woman show they received.

A relaxed and confident Mrs Thatcher could do no wrong at the 60th Conservative Women's Conference.

Whatever private reservations there may be that the Prime Minister has appointed no woman Cabinet minister since Baroness Young, who was dismissed in 1981, and that there are only seven women ministers at junior levels, publicly she notched up two standing ovations and 26 bursts of applause.

"We will never run out of steam," she told them, and, to prove it, ran lightly through several stream-of-consciousness proposals for future government action.

Dangerous dogs, one or two pieces of privatisation, private "lorry-only" lanes on motorways, higher compulsory purchase payments, divorce, parent power in education and a rents-into-mortgages scheme for buying council houses were all tossed into the instant manifesto.

The conference loved it. And when she drank Malvern water from the 60th-conference commemorative mug she had just been given, they loved it even more.

While the Prime Minister is greeted with fervour, however, the women's conference can be less effusive about her colleagues than is the annual party conference itself.

The only non-Thatcher standing ovations went to Mrs Marta Carnogurska, the wife of a deputy prime minister of Czechoslovakia.

Although ministers received introductions ranging from the cloying to the reverential, among the thousand or so delegates in the Horticultural Halls in London applause was well mannered rather than inspired.

Last year the conference even heckled Mr Nigel Lawson, then Chancellor, for failing to respond to calls for controls on credit promotion. The lesson was not lost on Mr John Major, his successor, whose speech to the conference on Friday signalled government restrictions on credit marketing if voluntary regulation failed.

Mr Cecil Parkinson, the Transport Secretary, however, still enjoys a special relationship with the Tory women's conference.

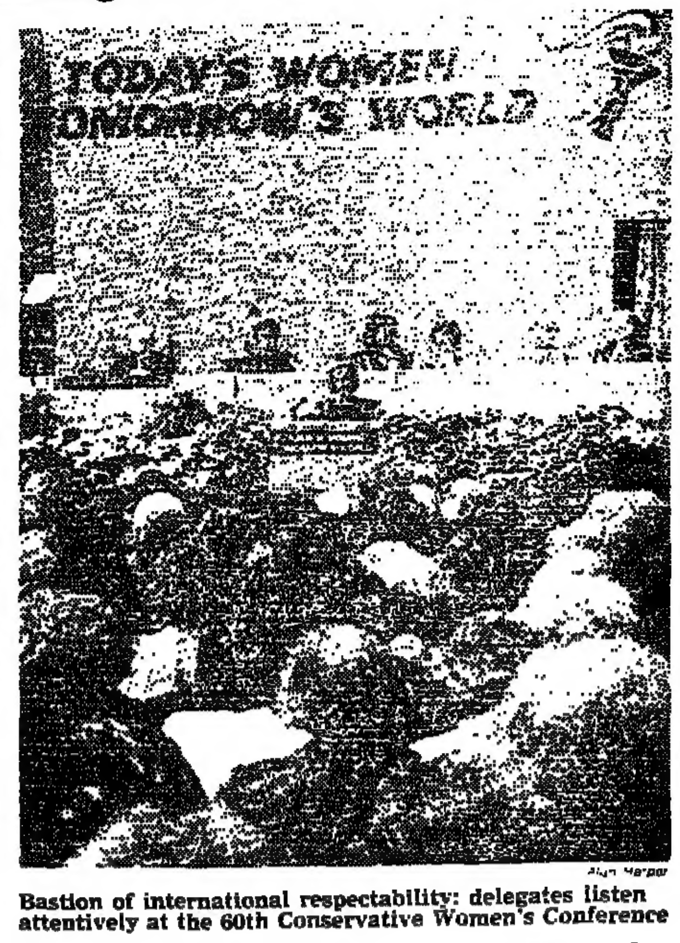
His first year in his present job was the first time transport had been debated at the conference in living memory, and he was the only minister apart from Mr Kenneth Baker, the party chairman, on the platform for the Prime Minister's performance.

Other ministers fared less well. Mr John MacGregor, the Education Secretary, had to struggle to retain his dignity as he was welcomed with a reference to the Beatrix Potter story featuring "Mr MacGregor and the Flopsy Bunnies".

Apart from a residual coyness among those chairing the debates, the Tory women have had some limited success recently at changing their image. The sartorial mix has certainly altered, as the hats have gone and the smart, brightly coloured suits have arrived. The number of delegates in their 20s and early 30s, however, is still small, although it seems to be increasing.

But what produces the somewhat monolithic image of a Tory lady, even more than dress or age, is the apparent unity on a range of social attitudes. The agreement on what issues should be of most concern – parental responsibility, the local environment and litter, family life, and higher standards in schools – and on the sorts of steps that should be taken, leave an impression of an underlying conformity beneath the changes of outfit.

In his "green" speech to the conference, Mr Chris Patten, the Environment Secretary, said: "We start from a position of international respectability." So, still, do the Tory ladies.




Alan Harper

Bastion of international respectability: delegates listen attentively at the 60th Conservative Women's Conference

# Labour attacks radical Tory plans as 'extremist'

By Alison Smith

LABOUR yesterday attacked as "extremist" the list of plans set out by Mrs Margaret Thatcher, the Prime Minister, at the weekend, while within parts of the Tory Party, the radical policies she set out have re-awakened concern about the pace of change.

Speaking impromptu at the Tory women's conference in London, Mrs Thatcher outlined proposals ranging from control of dangerous dogs, through private "lorry-only" lanes on motorways, the law on divorce and the family, to extending the rents-into-mortgages schemes to help people to buy their council houses.

Planning legislation that might incorporate her plans for better compulsory-purchase terms has already been pencilled in for the next parliamentary session in the autumn.

A bill enabling private-sector money to be used in building roads is also planned.

However, other measures, such as legislation to stop local authorities from hindering schools that want to opt out and become grant-maintained, are still some way off.

The one or two areas "which could have some privatisation" are also likely to wait until after an election.

There is already a pledge to privatise British Coal. Ways to bring the private sector into British Rail and the Post Office are also being considered.

Although senior Tories welcome Mrs Thatcher's zeal in spelling out the party's future objectives, some believe that the Government will first have to show that it can overcome the difficulties of implementing its current proposals.

They include the poll tax and National Health Service reforms.

The Prime Minister's speech has enabled Labour, whose lead in the latest opinion polls has dropped to 11 per cent, to turn the attack back on to the Tories after recent attention on their policy document.

Mr Gordon Brown, the shadow trade and industry secretary, said the plans were the "far-right, far-fetched, far-out dogma of fringe and freakish research institutes".

Labour frontbenchers also believe that the Prime Minister missed an opportunity to highlight a single theme or "big idea" for the Tories at the next election. However, one shadow cabinet member said the rents-into-mortgages scheme was "very appealing". Labour's response to it would have to be carefully considered.

Two weekend polls were the latest to show a decline in Labour's lead from more than 20 per cent earlier in the year.

A Mori poll in The Sunday Times put the parties at 49 per cent and 38 per cent and a Harris poll in the Observer showed Labour at 48 per cent and the Tories on 37 per cent.

Senior Labour MPs, however, dismissed suggestions that the party was dismayed about the fall.

They said that, as Labour had forecast, the lead had merely returned to realistic levels.

# Environmental compliance costs worry paint makers

By Ian Hamilton Fazey

BRITAIN'S paint industry is worried about the costs of meeting tighter environmental controls at a time when financial performance is weakening.

Leading companies allocated at least 10.3 per cent of capital investment to "green" compliance in 1989 and expect the area to absorb 76 per cent more this year and similar sums next year.

Green legislation will also make an increasing impact on profit-and-loss accounts in areas such as raw material costs, process controls and waste disposal. Last year's "green extra" running costs were three quarters of the extra capital spending and are expected to rise by 14 per cent this year.

The industry's ability to meet tougher environmental controls is dependent on the state of the general economy. Half of the industry's sales are industrial coatings and the rest are in the consumer and trade decorator markets. Paint output usually correlates closely with changes in gross national product.

Last year the aggregate profits for 23 companies comprising three quarters of the industry fell by nearly 25 per cent to £59m – a poor result when compared with total sales of just over £1bn. Sales and prices rose, but not by as much as costs.

Productivity fell, and one reason why numbers employed in the industry went up for the first time for a decade was that jobs had to be created to comply with new health, safety and environmental controls.

A survey by the Centre for Interfirm Comparisons (CIFC) for the Paintmakers Association showed nearly £4m spent on plant and equipment last year.

Mr Michael Levete, outgoing director of the association, says the survey put capital spending for the industry as a whole at a probable £6m and that for revenue at £4m. The total will probably rise to £13m this year. Commitments of £11m for 1991 are expected to be added to.

Although the 1989 figures represented only 0.7 per cent of sales for the companies studied in detail by CIFC, their "green" spending amounted to a more disconcerting 11.7 per cent of profits.

What the industry fears is a situation such as that in West Germany, where even tighter environmental controls have forced paint giants such as Hoechst and BASF into respective green spending of 1.4 per cent and 1.2 per cent of sales.

The industry's leaders, debating the issue at a Paintmakers Association conference on Saturday in Torquay, emphasised that they were not against public or environmental safety, but that the politicisation of the issue had left the green lobby dictating the agenda and possibly forcing more regulation than was necessary.

They fear that might make the industry less competitive and squeeze out smaller companies, some of which have made substantial technological breakthroughs in specialised niches and won world markets for their products. Such exports comprise the only sector of the industry that is performing well at present.

The conference agreed that the association should consider a 10 per cent levy on top of membership fees to develop a dedicated green issues unit and, more significantly, decided that the association's council should no longer delegate detailed policy-making on green issues to scientists serving on a panel controlled by the association's technical committee.

That marks a shift of control from middle management specialists to general management, with a recognition of a need for more hands-on responsibility at chief executive level within individual companies.

Joint talks will be started with the Paint Research Association to tap into government and European Community funds for basic research.

While do-it-yourself and trade decorators' paints are safe if used and applied properly, some industrial coatings cause concern, usually because of solvent emissions from paint shops in factories where cars and other metal goods are made.

The industry's leaders emphasise that it has always operated within the legal constraints of the day, and so claim there is a general retrospective responsibility that must lie with governments.

It looks unlikely that the industry will be able to afford to carry its own can without substantial rises in the price of paint.

# Food labels confusing, report shows

CONSUMERS are demanding more labelling of foods, although many are confused by the nutritional information currently given.

A report prepared by nutritionists at King's College, London, said: "The impact of food labelling has been seriously affected by the use of terms that are poorly understood."

Nutrition labelling should provide consumers with unbiased, factual, consistent, understandable and usable information about the nutritional properties of foods to prevent the present confusion, says the report.

The report also says many people still have a simplistic view about what constitutes a healthy diet.

# Lower inflation and poor growth predicted

By Michael Prowse

DECLINING inflation, sluggish growth and higher unemployment are to be expected over the next few years, according to the London Business School's latest four-monthly economic forecast, published today.

The forecast is based on the assumption that sterling joins the exchange-rate mechanism of the European Monetary System, probably in the autumn, at or slightly above present market rates.

It also assumes no fall in interest rates this year and a decline to only 12 per cent next year.

The LBS says the Government's monetary squeeze is beginning to restrict demand, although output is proving more resilient. It considers recession, in the sense of an absolute decline in gross domestic product, to be unlikely, but is gloomy about the medium-term outlook.

Growth is expected to average less than 2 per cent a year over the next four years, which is 0.5 per cent a year less than previously forecast.

That spells poor prospects for employment, in spite of a drop in the number of school leavers. By the end of the year, unemployment is likely to be rising at an annual rate of between 50,000 and 100,000.

The LBS is relatively sanguine about inflation, saying the feared piercing of the "10 per cent barrier" will not occur. It expects retail price inflation to average 9 per cent this year, but fall below 5 per cent by the end of next year. By 1993 inflation is forecast at just over 4 per cent.

The forecast expects export volumes to grow by 7 per cent this year and 3.6 per cent next year, or roughly twice as fast as import volumes. The strong export performance would partly reflect rapid growth in overseas markets.

The current-account deficit is expected to shrink to £12.9bn by 1991, compared with £17.3bn this year and £20.9bn in 1989.

However, further progress will be impeded by declining UK competitiveness because of ERM membership.

The LBS forecasts steady but modest growth for consumers' expenditure in the early 1990s. However, it warns that upward pressure on public expenditure has eliminated the scope for tax cuts in the 1991 Budget.

**ECONOMIC FORECASTS**

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| GDP | 2.5 | 1.5 | 2.1 | 2.3 | 1.9 |
| Inflation | 7.8 | 9.0 | 6.1 | 4.7 | 4.2 |
| Consumers' Expenditure† | 3.8 | 1.8 | 1.5 | 2.5 | 2.1 |
| Total Fixed Investment† | 4.8 | 1.2 | 2.8 | 2.2 | 2.1 |
| Gen Govt Consumption | 0.5 | 1.1 | 1.1 | 0.9 | 0.9 |
| Stockbuilding†‡ | 3.2 | -0.2 | -0.3 | 0.7 | 1.2 |
| Exports† | 4.1 | 6.9 | 3.6 | 2.8 | 2.3 |
| Imports† | 7.1 | 3.2 | 1.5 | 2.8 | 2.4 |
| Sterling Index* | 92.0 | 88.0 | 90.0 | 90.0 | 90.0 |
| PSDR (£bn,finan years) | 8.0 | 4.5 | 3.5 | 6.0 | 7.3 |
| Current Balance (£bn) | -20.9 | -17.3 | -12.9 | -12.9 | -12.3 |
| Adult Unemployment (UK, m) | 1.8 | 1.7 | 1.7 | 1.8 | 1.8 |

Percentage change unless otherwise shown † Percentage change in volume. ‡£bn 1985. *1985 = 100

Source Economic Outlook 1989-1993, June 1990.

# ERM membership urged at £'s present rates

By Michael Prowse

THE UK should join the exchange-rate mechanism (ERM) of the European Monetary System at or slightly above sterling's present market rate of DM2.90, according to Professor David Currie and Mr Geoffrey Dicks in an article in the London Business School's latest Economic Outlook.

They say if Britain joins the ERM this autumn, sterling should enter in the lower half of a broad band to ensure that further appreciation of the pound does not force a premature cut in interest rates. If entry is delayed to next spring, Britain should opt for the narrow band used by all ERM members except Spain.

If the UK opts for an initially broad band (6 per cent either side of central parity), a move to the narrow band (2.25 per cent either side) would be necessary next year in order to maximise the anti-inflationary benefits of entry.

The authors say ERM membership on appropriate terms is likely to entail "a period of painful disinflation" involving several years of depressed output growth and rising unemployment.

They warn that entry on the wrong terms could seriously jeopardise Britain's economic prospects. Thus entry at current market rates at the top (rather than the bottom) of a broad band would do nothing to curb inflationary pressures and might precipitate a rapid fall of sterling.

Prof Currie and Mr Dicks dismiss the case for attempting to enhance industrial competitiveness by entering at a "deep discount" rate of, say, DM2.50. They say sterling is not overvalued and that entry at a low initial rate would only exacerbate inflation.

The authors also warn against using ERM entry as a "pre-election gambit" to allow an early reduction in interest rates. They say rates should not be lowered this year and should fall only to 12 per cent next year.

# Sales staff get satellite TV show

By Ray Snoddy

RADIO RENTALS, the consumer electronics rental group, will today stage what is believed to be the most extensive business television broadcast in the UK so far.

About 5,500 staff and more than 600 Radio Rentals branches will watch their own private television show every day this week as part of an incentive scheme designed to boost sales.

The 15-minute daily programme, featuring senior Radio Rentals executives, will set sales targets for each day and then report on performance. Prizes, such as a trip to Moscow, will be offered to the most successful staff.

Mr Brian Coe, managing director of Radio Rentals, said: "The show lets us talk to all our staff at the same time around the country which is a tremendously effective way to communicate."

The private television service is provided by BSB Datavision, one of six organisations that have a special licence from the Department of Trade and Industry to provide specialised satellite services to the UK and Europe.

Datavision is a sister company of British Satellite Broadcasting, a consortium in which Pearson, publisher of the Financial Times, has a significant stake. It uses spare capacity on the satellite system that broadcasts BSB's five-channel television service. Datavision's clients include NatWest Bank and Price Waterhouse.

UK NEWS

# Sizewell costs top £2bn, leaked document shows

By David Thomas, Resources Editor

THE COST of building the new nuclear power station at Sizewell in Suffolk has risen above £2bn and may rise still further, according to a confidential Nuclear Electric board paper leaked to Friends of the Earth, the environmental pressure group.

The leak comes two days before the publication of what is expected to be a critical report from the Commons Energy Committee on cost control in the nuclear power industry.

Friends of the Earth yesterday released copies of a paper dated June 7 from Mr Brian George, head of the Sizewell B pressurised water reactor station project, to the board of Nuclear Electric, the public-sector company that runs nuclear power stations in England and Wales.

The paper shows the latest estimates of the cost of building Sizewell to be £2.03bn in 1987 prices or £2.621bn at present prices. The figures exclude £199m that Nuclear Electric is writing off to follow "more prudent accounting policies," the paper says.

The latest published figure for the cost of building Sizewell is £1.87bn, also in 1987 prices.

The leaked paper discloses that an independent review by consultants at Coopers & Lybrand Deloitte of Sizewell concluded that Sizewell would cost 6 per cent more even than the latest revised estimates.

Nuclear Electric has decided against adopting Coopers Deloitte's estimate, but the paper says: "There must remain a risk of a further increase in the scheme sanction [cost] being necessary at some future date."

The paper says suppliers have "hardened attitudes" because of the Government's decision to abandon three PWR stations similar to Sizewell. It gives as an example a £107m rise in software costs.

Mr Simon Roberts, Friends of the Earth energy campaigner, called for Sizewell's cancellation.

Nuclear Electric refused to comment on the detail of the paper, but said it was intending shortly to release revised cost estimates for Sizewell, which it has been discussing with the Government. The Department of Energy said the decision whether to publish costs was a matter for Nuclear Electric.

The leaked Nuclear Electric paper shows Sizewell's construction costs continuing to mount until 1995-96, two years after the station is planned to come on stream. The Energy Department said last night it knew of no delays to Sizewell.

# A true believer stands up for the monetarist creed

**Patrick Harverson** profiles Tim Congdon in the first of a series on influential economists

IT HAS been said that most of Britain's economists are living in the Dark Ages.

Many still favour the Keynesian approach to economic policy-making over the free market philosophies that have held sway in Britain for the past decade. A clear majority of British economists fall into that category, according to a recent survey by the Institute of Economic Affairs.

Most of the 1,000 economists interviewed believe that reducing inflation should not be the chief objective of government policy, that inflation is not a monetary phenomenon, that increased public spending would be more effective than tax cuts in boosting growth, and that governments should seek to redistribute income from rich to poor.

Although that appeared news to many, it came as no surprise to Mr Tim Congdon, the monetarist economist who heads the research team at Gerrard & National, the City discount house.

The combative Mr Congdon has been saying for some time that the British economic academic community is behind the times. He goes much further, arguing that the bias of the economic debate against monetary analysis is to blame for the country's present economic ills.

Speaking in the offices of his City employer on Lombard Street, Mr Congdon wastes little time apportioning blame where he believes it is due.

"My view is that the recent boom, and now the problems of inflation and so on that we have, were the result of abandoning broad money targets in 1985," he says.

"Not just that, but the abandoning of the whole framework of financial control that was associated with monetary targets.

"If one has to explain why that framework was abandoned, I think you've got to go to the British economics profession, and ask why it is that the interest in credit and money and interest rates is so weak."

He identifies two reasons for the abandonment of the frameworks – one political and one historical.

He says the political factor was the traditional left-wing orientation of economics departments in British universities, where the natural preference is to tackle macroeconomic issues with traditional Keynesian weapons, such as incomes policies, fiscal reforms and credit controls, rather than free-market solutions. The result has been a "systematic neglect" of monetary policy, says Mr Congdon.

He believes the historical element has been even more influential. "In the period from 1932-51, interest rates were basically fixed at 2 per cent, partly because of the Depression and partly because of the Second World War," he says.

"And in that 20-year period, British economics moved away from analysing credit, money, interest rates and so on, to thinking about fiscal policy and controls.

Tom Andrews

Tim Congdon: "There is a gaping black hole in the understanding of the economy"

"It has taken about 15 to 20 years to realise that there is a gaping black hole in the understanding of the economy, and of credit and money, and their effect on economic activity."

Mr Congdon believes a whole academic generation has been lost, "practically a 25-year period when people simply did not want to know about money at all". The reason lay not just in the fixed interest rate, but in fixed exchange rates too. The pound was tied to the dollar from the end of the Second World War to the breakdown in 1971 of the Bretton Woods system of fixed exchange rates. During that period, Britain effectively "imported" US monetary policy.

The great irony, says Mr Congdon, is that Britain is poised to import monetary discipline again, only this time from Germany and the D-Mark, via membership of the exchange-rate mechanism of the European Monetary System.

"So in effect we'll have had a 20-year period from 1972 up to say, 1991, when we actually could run things by ourselves, not importing financial discipline imposed by other countries. But we made a complete botch of it. That's the simple verdict. And if one wants to explain why that occurred, the reason is British academic economics."

The one brief period of success, he believes, was the targeting of money aggregates, in particular M3 (the broad measure of money, including bank credits as well as notes and coins) from about 1976 to 1985, which he regards as having been generally effective in keeping down inflation.

Not everyone agrees. The Government abandoned the targeting of M3 in 1985 because it felt M3 was unreliable as a monetary indicator, and therefore had no role to play in the fight against inflation. One City economist later described the demise of M3 as the "final burial of 1980s monetarism".

Mr Congdon describes present economic policy as a "muddle". The Government's advisers – at the Treasury, the Bank of England, and elsewhere – are reflecting the academic consensus that the control of the money supply is no longer a useful weapon of economic policy. However, as Mr Congdon points out, some of those advisers have always been perfectly frank that if they ever were monetarists, they were "unbelieving monetarists".

It is a revealing phrase, for Mr Congdon preaches the monetarist creed with a passion and fervour more suited to the revivalist churches of south London than the hushed corridors of Cambridge University or the Treasury.

The question of full membership of the EMS also animates Mr Congdon considerably. He welcomes the monetary tightness it will bring but wishes the policy was home-grown rather than imported.

"The whole case for joining the EMS rests upon the inflation-fighting ability of the Bundesbank, ultimately," he says.

"But how does the Bundesbank conduct monetary policy? One just looks at the first page of the Bundesbank bulletin. What does one see? Deposits, broad money, credit growth, all this stuff.

"The basic framework of policy is exactly what we had between 1976 and 1985, and all we're doing by joining the EMS is just importing that discipline seen through German eyes."

*Further articles in this series examining the divergent views of Britain's economists will appear on the UK news pages over the coming weeks*

# Regulator investigates electricity market

By David Thomas, Resources Editor

AN ATTEMPT to inject greater competition into the electricity market has been referred to the industry's regulator, the Office of Electricity Regulation (Offer).

Gwent County Council is asking to be classed as a leading business user with a demand exceeding 1 megawatt.

Under industry regulations, that allows it to shop around for cheaper electricity supplies.

The industry is at present waiting for Professor Stephen Littlechild, the director general of Offer, to clarify which business customers qualify for the classification and his decision is expected soon.

Customers with premises with a maximum demand of more than 1 MW are able to shop around and take full advantage of the price cuts being offered by electricity companies. That rule is due to remain in force for four years.

Many large electricity users are asking for clarification of how the 1 MW market is defined.

In particular, they have bombarded Offer with requests for a clear definition of the conditions under which sites can be grouped together to take them above 1 MW.

The issue has now come to a head because Gwent County Council is asking for its street lighting, which has a demand of over 1 MW, to be treated as one site. If the request us allowed, the county council would be able to approach rival companies for competitive bids for the supply.

However, Gwent's request is opposed by the area electricity companies.

They stand to lose a further large slice of their supply business if the definition of a 1-megawatt site is widened.

"Gwent is just part of a larger picture of a large number of people wanting to push forward competition aggressively," Offer said.

About 4,000 customers in England and Wales have premises with a maximum demand of over 1 MW, as the definition is currently understood, according to electricity analysts at James Capel.

Many of those have already switched their supply contracts from the area distribution companies to National Power and PowerGen, the two generators.

# Contractors ready for end of MoD freeze

By David White, Defence Correspondent

DEFENCE CONTRACTORS are preparing for an imminent resumption of business with the Ministry of Defence, ending the freeze on new procurement contracts.

However, they face the prospect of more deals being dropped or postponed than they expected when the measure, now going into its seventh week, was imposed last month. Sir Peter Levene, the ministry's Chief of Defence Procurement, has assured manufacturers that the moratorium will be lifted at the end of the month.

Industry representatives were initially told that the Government was looking for savings of £350m in the current annual budget, but the target has been increased to £600m. The cut is separate from longer-term reductions under review at the MoD.

Senior officials said scope for immediate savings on personnel costs was limited, and most of the cuts would be made in the £8.3bn provision for equipment procurement.

Overtime and recruitment of civilian personnel have also been frozen under the moratorium, which the industry was originally told would last five or six weeks.

All except very urgent procurement contracts have been held up as the MoD works out ways of staying within its 1990-91 budget in spite of higher inflation than expected.

The first measure, the cancellation of a final order of 33 Tornado aircraft for the Royal Air Force, was announced last week. Only a small part of the £530m saving from the cancellation will apply to this financial year, officials say.

The Cheltenham-based Defence Manufacturers' Association said it was unclear whether the MoD would cancel other big contracts or spread the cuts across a number of smaller items.

Mr Brian Lowe, the association's director general, said a number of companies were "champing at the bit" to have contracts confirmed and were worried about "inertia in the system" causing more delays.

Manufacturers awaiting renewal of annual contracts were taking calculated risks when buying in materials to avoid being late in delivery.

MANAGEMENT

East German industry

# Economic union putting Polygraph to the test

**David Goodhart on the changes the printing company must face**

At the beginning of January the Kombinat Polygraph, East Germany's printing machinery conglomerate, surprised the world by buying a company in the US. The company, Royal Zenith, of Great Neck, New York, was Polygraph's US distributor and cost about $35m.

It was an unusual step for an East Bloc company, but Polygraph has always been unusual by East Bloc standards. Like Meissen, the East German porcelain company, Polygraph is a successful exporter and delivers more than half of its output to the West.

That experience in Western markets gives it a much better chance to prosper than most East German companies following economic and currency union with West Germany next month. However it is also a measure of how difficult the adaptation process will be that "thousands of jobs will have to be shed even from Polygraph, one of the most successful exporters in the country," according to Peter Kahlert.

Kahlert is head of Planeta, the largest and most successful company within the Polygraph conglomerate. The conglomerate, with its 16,000 workers, has effectively ceased to exist since January when Planeta, with 5,000 workers and seven plants, decided to strike out on its own.

It was quickly followed by the three other big Polygraph concerns Zirkon and Brehmer, both based in Leipzig and Plamag in Plauen. Kahlert believes that Brehmer and Planeta have the best chances to prosper in the new world.

The main Brehmer plant, unlike Planeta's, has the aged and chaotic look of a typical East German works, but the fact that Brehmer's boss, Wolfgang Rüde, has working for him consultants from the Roland Berger firm, tax specialists from Ernst & Young, and bankers from Dresdner Bank, indicates that appearances are deceptive.

At the end of a three year restructuring plan worked out with Dresdner Bank, Brehmer, which produces book and magazine binding machines, should be profitable. On the way the workforce will fall from 3,300 (with annual sales of East Marks 250m) to 1,500.

Only about 800 of that number, however, will count as real redundancies. The rest, explains Ruede, will come from cutting free a host of smaller companies, many of them forcibly merged with Brehmer in 1972.

In what remains of Brehmer, Ruede intends to create semi-independent profit centres and to close down certain functions that can be more easily acquired from outside, such as software.

Currently the company exports more than 90 per cent of its machines – split roughly half and half between East and West markets – but Ruede fears he will lose much of his small domestic market and face rising competition in East and West. For 1991 70 per cent of capacity is already booked, but Ruede aims to increase sales by 30 per cent.

Planeta, based in Radebeul, just outside Dresden, also wants to increase its sales (currently 1bn East Marks) by 30 per cent next year and double them by the end of 1992. And despite Kahlert's pessimism about jobs – he too will have to lose 1,000 he says – the company should register several significant benefits from economic and currency union.

Like Brehmer he will be able to shed peripheral departments as well as management responsibility for everything from the health to the holidays of his staff. Material supply will become cheaper and more efficient; and electronic parts from Siemens will immediately be integrated into the machines.

Kahlert says that despite being one of the world's leading producers of sheet-fed offset printing machines, with 70 per cent of production exported to the West, Planeta suffered discrimination because of its "made in the East Bloc" tag, which should now disappear. More concretely a customs toll of 25 per cent on exports to the US, where about 20 per cent of production is sold, should come down to the West German level of about 4 per cent.

By East German standards Planeta's relatively modern plants work at full capacity, but Kahlert says that can be improved by 30 per cent by increasing the intensity of work.

Will there also be some disadvantages associated with currency union? Planeta was a valuable earner of hard currency for East Germany and thus enjoyed many corporate privileges – such as easier access to hard currency when they needed to buy from abroad.

"We were an island of market thinking – flexible and experimental," says Kahlert, who had the idea of buying, for Planeta, the US distributor in New York. Planeta, founded in 1898, and famous for several important technical breakthroughs such as the first two-colour and four-colour printing presses, managed to preserve its inventiveness in the command economy and in 1965 developed an entirely new offset technology.

But, yes, there will be a few problems after currency union. "When our workers receive the D-Mark they will soon notice how much less they are being paid than their opposite numbers at MAN Roland or Heidelberg (the West German competitors) and that could create unrest," says Kahlert.

Bank workers have already won a pre-monetary union pay rise of 40 per cent and the East German I G Metall (metal workers) has won a reduction in the working week from 44 to 40 hours; successes that the print workers will want to emulate.

Kahlert is also dogged by a relatively high debt burden. Planeta was a high investment, high profit operation, but under the old system had to give up most of its profit and live off credits from the state, which Kahlert refuses to call "debt."

He points out that converting corporate "debt" at two East Marks to one D-Mark is not very generous when you consider that last year he borrowed 50m East Marks to buy a machine from West Germany costing DM15m (the exchange rate was then 4.4 East Marks to 1 D-Mark) and at the two to one rate he would have to pay interest on a debt of DM25m. However the East German Finance Ministry is aware of this problem and has now said that such debts may be converted at four to one.

At least Planeta, like Brehmer, will have West German banks scrambling to help out with short-term liquidity problems. The company will also be supported by its new partner König and Bauer, the third biggest West German printing machinery maker, and off its own bat has already established small electronics joint-ventures with a small West German firm, Komag and with Fuji of Japan.

Planeta, like large East German companies, is owned by the East Berlin Government's trust body, the Treuhandanstalt, which theoretically controls the West German-style supervisory board that Planeta has just created alongside an executive board which exerts day to day management control.

The trust says that it will give companies consultation rights over who is allowed to buy their share capital, or whether and when they will be floated (if flotations are possible at all). But Kahlert, like many of his colleagues, seems determined to shape the process rather more actively.

Unlike many of his colleagues, including Ruede, he is rather dismissive of worker shares and says that this should be kept to a token 5 per cent. Ruede envisages a 50 per cent share for workers and 50 per cent for western investors.

Kahlert has already turned down an advance from the Japanese group Komori, which he suspects wanted to close down most of Planeta's production facilities and turn it into a deliverer of Komori products.

"I want to keep the maximum production, and employment, possible, and I also want the freedom to raise new capital for the future," he says. His ideal, an echo of West German corporatism, would be two or three big investors with 20 to 30 per cent each.

# Call for local level training agencies

**By James Buxton**

It is fashionable to be sceptical about TECs and their lesser known Scottish counterparts, LECs. TECs are the Training and Enterprise Councils, led by local businessmen, which the Department of Employment is helping to set up in England to handle training and business development.

LECs, local enterprise companies, are being formed in Scotland. They will inherit some of the functions of the Scottish Development Agency as well as of the Training Agency. The SDA is being wound up and transformed into Scottish Enterprise, which in lowland Scotland will act as the supervising body for the LECs.

"The Scottish Enterprise concept has more apologists than supporters," one observer of the scene said recently. The debate in Scotland has centred on the breaking up of the SDA, and on the structure of Scottish Enterprise. In England the Government's trimming of funds to the new TECs and lack of flexibility on how the funds may be spent are the issues.

The central concept is overlooked: the blending of enterprise development with training, and devolution to local bodies. The authors of a newly published book* think the concept is absolutely right.

One of them, Michael Fass, started BASE, Bathgate Area Support for Enterprise, a local development agency set up to breathe life into the economy of West Lothian after British Leyland shut a vehicle plant. The other, Richard Scothorne, used to be Scottish director of British Shipbuilders Enterprise, helping former shipbuilders back into employment.

They believe that helping people to find work and improving their skills is essentially the same process as aiding small and medium-sized businesses to become established, grow and improve.

Both are in practice dealing with individual people and just as a person has to assess his resources, make a plan and market himself, so does a business.

But the main message of this book is that the key economic development agency must operate at the local rather than regional or national level, so that it knows what local needs are, is seen to be locally accountable and can develop long-term relationships with its "clients."

A local agency cannot, however, deliver every service a client might need – such as expertise in just-in-time manufacturing. In this case the agency should "call down" services from a specialist or other body: the authors make a distinction between this and "referring up" a client to a higher body. The latter must work in partnership with the local agency, rather than the local agency being under contract to it.

Though Fass and Scothorne are too polite to say so, this is the opposite of the structure intended for Scottish Enterprise which is to sub-contract responsibilities to the LECs and closely supervise them. They do however accept a need for an organisation with a wider perspective to prevent duplication of effort and to do things, such as labour market planning, best done on a wider scale.

Partnerships, they say, are most likely to motivate staff in the economic development service. Yet some organisations "behave in a remote and hierarchical manner," producing aims and objectives without consultation, and "rigid schemes for large groups of people" ignoring the needs of individuals. "When success is measured by the number of clients entering or leaving their doors, it is no wonder that some providers are motivated to do little more than attract as many clients as possible and retain them for as long as possible."

To the reader that sounds like a description of the Training Agency. When "performance is measured by reports delivered and funds spent, it is no wonder that services extract capacity from clients rather than add skills and expertise."

Some people in Scotland will see that as a swipe at the dying SDA and a warning to Scottish Enterprise.

**The Vital Economy. Integrating training and enterprise; Abbeystrand Publishing, 20, [illegible] Road, Edinburgh, EH9 2NN; £7.95 inc. p & p.*

## Management abstracts

**Strategic job analysis.** *B. Schneider + A.M. Konz in Human Resource Management (US). Spring 89 (13 pages).*

Points out that the use of job descriptions for recruitment, selection training and appraisal implies that jobs are static. Since many jobs are likely to change because of a rapidly changing internal and external environment, argues that job analysis should reflect this; describes some new add-on techniques to convert traditional to "strategic" job analysis, but admits these do not meet every requirement.

**AIDS at work.** *Health & Safety at Work (UK). Jan 90 (2 pages).*

Briefly surveys the spread of AIDS in the US and how private companies have tackled the problem; reveals that, while the impact of the disease on work performance and in economic terms has been great, only a small minority of employers (less than 10 per cent) have introduced formal policies to deal with it. Outlines main types of company response, eg total denial that it is a workplace issue, and points to instances where large companies have concentrated on informational awareness campaigns.

**The decline of public equity: the return to private enterprise.** *J.W. Kensinger + J.D. Martin in Business Horizons (US). Nov/Dec 89 (10 pages).*

Questions whether the public corporation is still the most suitable form for large-scale industrial enterprise. Argues that it is not, and that a new pattern may emerge in which research, development and marketing will be undertaken by professional firms, and actual product manufacture by sub-contractors, with specialised "brokers" undertaking the co-ordination.

**Beyond the wall: the other Germany.** *A. Stradling in European Business Review (UK). Winter 89 (4 pages).*

Something of an introduction to doing business with East Germany, which ranges over the economy, "swing" credit, trading methods, and market outlook. Illustrates percentages of trade with various partners and export-import activity.

*These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of [illegible] each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.*



# LEGAL COLUMN

# Munich firm opens London office

**By Robert Rice, Legal Correspondent**

THE MUNICH law firm of Beiten, Burkhardt, Mittl & Stever (BBMS) has become the first West German firm to open an office in London, in what one of its senior partners, Dr Gerhard Beiten, describes as "a little response" to the opening of offices in Germany by the City law firms Clifford Chance and Freshfields.

It is not a tit-for-tat exercise. BBMS has opened in London primarily to strengthen its associations with City law firms and take advantage of the increase in the number of foreign companies seeking investment in eastern Europe, particularly in East Germany.

BBMS was formed earlier this year out of the merger of three established Munich firms, Kreuz Niebler & Mittl, Burkhardt, Reissinger & von Hutten and Stever & Beiten. All three firms were close to each other geographically and had similar client bases with a strong international bias. Half the new firm's work now comes from international clients.

The new firm has 40 lawyers and 100 support staff, a small to medium-sized law firm by UK and US standards, but large in a country where nine tenths of legal services are provided by firms comprising one to three lawyers, and where until recently law firms were unable to merge with firms from other cities or open offices abroad.

BBMS is now the largest firm in Bavaria and among the top ten largest firms in West Germany. Dr Beiten believes, however, that Bavaria's proximity to the east gives the firm an added advantage over some of its larger rivals in other cities.

In a table of the most prosperous cities in Europe, published recently by Professor Paul Cheshire of Reading University, Munich finished fourth behind Frankfurt, Brussels and Venice. Eight West German cities appeared in the top 20. Brighton, Britain's most prosperous city, was placed 19th, London only 35th.

Frankfurt's continued prosperity as a financial centre is uncertain. Germany's big banks have put all expansion plans for Frankfurt on hold pending a decision as to where the seat of government in a newly united Germany will be based.

If the government remains in Bonn, the Bundesbank, the West German central bank, would almost certainly be permitted to remain in Frankfurt. If the seat of Government were to shift to Berlin, however, the Bundesbank would have to follow suit, undermining the future prosperity of Frankfurt as Germany's financial centre.

**There is a danger that unless British companies take steps to invest in Eastern Europe now, they will be left behind**

The German civil code before the Second World War required the central bank to be located in the same place as the seat of government. In a reunited Germany, that code is likely to be invoked.

Bavaria, on the other hand, not only has the advantage of proximity to eastern Europe, but its local economy is centred on the high-technology and telecommunications industries that will be of such importance to the developing countries of eastern Europe during the 90s.

Munich, which according to Dr Beiten is the only important West German city still growing in size, has established itself as one of Europe's leading centres for electronics and computer technology (Siemens), motor vehicle manufacture (BMW), entertainment (particularly film and television), publishing and fashion and design. Next year it will have a new international airport. Bavaria also plans to intensify trade and connections with the newly forming East German Länder (states) of Saxony and Thuringia on its northern borders.

BBMS has responded to all this by setting up offices in the Bavarian cities of Hof and Nuremberg and in Dresden and Plauen, the traditional heartland of East German industry. As a reflection of its international client base, the firm also has offices in New York, Paris and now London.

With all that activity on the home front, why has the firm chosen to open a London office? Mr Bertrand Prell, who will be based permanently in London, says the decision was client-led. The firm has no intention of practising English law, it is here purely and simply to provide a better service to its existing US, Japanese, British and German clients based in London and encourage investment into eastern Europe through Germany.

British companies in particular have shown an understandable caution about investing in eastern Europe, Dr Beiten says. They recognise that market conditions are not yet right for direct investment. There is a danger, though, that unless they begin to take steps in that direction they may be left behind when conditions improve.

East German markets will be made more accessible if representation is first established in West Germany, he says. BBMS is convinced that East Germany will be the first step into eastern Europe for a number of foreign investors and that London will be at the forefront of providing the necessary financial resources.

Given the move in recent months towards closer co-operation and exclusive agreements between European law firms and a perception among City firms that the pattern of traditional non-exclusive referral arrangements is beginning to break up, did BBMS consider an exclusive agreement with one of the City's main firms?

Dr Beiten says they considered it but rejected it. The firm believes it would be counterproductive to tie itself to one firm at this stage.

He accepts that if traditional cross-referral arrangements are breaking down across Europe, the logical step for many firms, particularly the larger UK firms, will be either to establish more overseas offices or seek exclusive agreements with the best available local firms.

In France, the obvious place either to open an office or look for an exclusive arrangement is Paris; in Spain, Madrid or Barcelona; in the UK, London; and in Italy, Milan or Rome. In Germany the choice is not so simple.

For a large commercial firm with a broadly based corporate and financial practice, there is no one obvious choice. If international finance is the main consideration, Frankfurt is the obvious place at present. If the firm has high-tech and electronics clients or a large entertainment or publishing practice, it would have to choose either Munich or Stuttgart. For heavy industry, should it choose Essen, Düsseldorf or Cologne?

There are also political considerations. If the seat of government moves to Berlin, should UK firms open there?

Dr Beiten says he believes that exclusive agreements with one German firm will be too limiting for many UK practices and that cultural and language barriers, coupled with a lack of local knowledge, will make it very difficult for UK firms to compete on their own in Germany. When companies are investing in East Germany, local knowledge will be vital.

# Training centre to focus on presentation skills

THE CITY law firm Nabarro Nathansonhas demonstrated its commitment to the long-term future by spending £125,000 on a training centre. The centre has been opened in advance of changes in the Law Society's rules on continuing education and changes in the solicitors' final examination course, which will place more emphasis on practical skills training, writes Robert Rice.

It was specially designed for Nabarros by consultants Mediapro under the guidance of the firm's director of education, Ms Helena Twist. It will be used to train the firm's staff from top to bottom in personal, presentation and communication skills.

Mr Jeffrey Greenwood, Nabarros' senior partner, says it will enable trainee solicitors to pick up presentation, negotiation and client-interview skills that it had taken solicitors of his generation 10 to 15 years of trial and error to learn.

The centre contains the very latest in audio-visual technology, but the highlight is an idiot-proof, touch-sensitive command centre that can control all the facilities from a lectern with the aid of a computer.

It has already proved a boon for shy senior partners who are not prepared to have anyone present while they are performing. They can now go into the centre and film themselves presenting a speech or client pitch and take the video away to discover how dull their presentation style is in the comfort of their own home.

Nabarros hopes to run it eventually as a separate profit centre and, when the Law Society's new course begins in 1993, to hire it out to other firms. Who knows, it may also help them in the increasingly competitive recruitment market.

FINANCIAL TIMES SURVEY

# AUSTRIA

Monday June 25 1990

This is a time of great change, writes **Judy Dempsey**. Events in eastern Europe mean Austria's significance as a neutral state in east-west relations has fallen; the country has applied to join the EC, and an election this year will be a tough test for the ruling coalition

## A shock to complacency

STABILITY has its virtues. But it can also breed complacency. As Eastern Europe lurches in the unstable and leaky boat of democracy, its neighbour, Austria, which has kept the door open to political refugees ever since the Hungarian Uprising of 1956, is like a contented child gently rocking in a hammock. The movements are rhythmical enough to send any child to sleep. If the child were to wake up, it would find Austria a world full of reassurance.

After all, the socialist-led coalition government, in partnership since January 1988 with the conservative People's Party, is reaping the benefits of steady economic growth. GDP is expected to rise 3.5 per cent this year and will further increase by 0.2 per cent in 1991.

Unemployment continues to fall from 5.3 per cent in 1988 to less than 4.6 per cent in 1991. Imports, at 10 per cent of GDP, are set to remain stable over the same period. Personal consumption will edge up 0.3 per cent above 3 per cent in 1991.

The news on the inflation front is just as optimistic. In three years, inflation has risen only 1.3 per cent from 3 per cent. The nightmares of large budget deficits and heavy subsidies for the uncompetitive state-run industries are also becoming things of the past. In short, the trends indicate that the Austrian economy is one of the most stable in the OeCD countries, and one which is reckoned to grow over the next year. The future indeed looks bright.

Except that the small intellectual elite which has pondered about Austria and its future ever since the Iron Curtain was taken off its heavy hinges last year, is concerned about the direction in which Austria is heading.

A year ago, nobody doubted the direction. Here was a neutral country, wedged between eastern Europe and the west, which was determined to keep its contacts open with Budapest, Prague and Warsaw, but equally anxious to seek consensus at home to join the European Community.

Sometimes one felt that apart from those in industry who relish the competition and anti-monopolistic lure of Brussels, Austrians tended to prefer the old predictability of the east, which rarely impinged on the tidy political and social consensus of Vienna, to the unprecedented changes now facing all of Europe.

Such impressions are confirmed by the cool, if not hostile reception eastern Europeans – especially Czechs and Romanians, – found among sections of society earlier this year. The sentiments clearly signalled that the eastern cousins should stay home rather than spoil the ordered Viennese streets with their little two-stroke Trabant cars.

But now that the Iron Curtain is down and the application to join the EC has been lodged in Brussels for nearly a year, Austrian officials are actively pursuing ways of securing an early acceptance into the Community, once the internal market is complete.

Thanks to the demise of the Warsaw Pact and Nato's reappraisal of its military role, Austrian officials appear more relaxed about their neutral status. They no longer sense that it will inhibit its entry into the Community.

This status was once circumscribed by an almost mystical belief in Vienna that precisely because of its neutrality, Austria provided a bridge between east and west. But bridges are now superfluous.

What then is Austria's role? Where lies its identity as Europe prepares for 1992 and eastern Europe rocks frantically from instability arising from economic reforms, uncertainty about future crediblity and the state of its fragile democracies?

The advisors around Mr Franz Vranitzky, the Chancellor, say Austria must belong to the EC, but at the same time it must not neglect its east European cousins, some of whom regard Austria as the perfect model of democracy, stability and consensus.

Those attributes may well be put to the test in the general election scheduled to take place on October 7.

A few months ago, the election would have been fought on the issue of corruption. Since the late 1980s, the country has been plagued with scandals, ranging from allegations of illegal arms sales to the Middle East by Noricum, a subsidiary of Voest- Alpine, the State-owned steel and engineering group, to senior politicians evading tax – not to mention the presence of a lame-duck President in the Hofburg. Many of these scandals reached the courts. The Chancellor himself was called to give evidence in the arms affair.

However, the wave of scandals seems to be coming to an end as managers are gradually being chosen more for their competence than their political loyalty. Austrian public morality, so often influenced by its Balkan cousins' penchant for favours, is slowly giving way to public scrutiny coupled with an intolerance with privilege.

The hoped-for end of the corruption era bodes well for the coalition at a time when the government is slowly trying to modernise its institutions. These modernisations include an overhaul of the education system, a new electoral law, more attention to the environment and the continuing restructuring of the state-run industries.

The country's application to join the EC has undoubtedly provided one of the catalysts for these impulses, but there is another one. In recent years there has been an awareness from the technocratic wing of the Socialist party, from disenchanted and often marginalised intellectuals, and pressure from some of the younger generation, that the Austrian way of "doing things" no longer serves any useful purpose. They see as unfair and stifling to creativity and initiative the distribution of favours, the *sozialpartnerschaft* (the social contract forged between government and unions since the 1950s), the subservience to the unwieldly, bureaucracy, and the ridiculous *proporz* system whereby the top jobs were carved out equally between socialists and conservatives.

This system may have promoted stability – but it was a stability built on complacency. The challenge of the east and the spectre of 1992 might be a welcome jolt to that complacency, even if it means the hammock will not swing so smoothly as before.

The great east-west divide is no more, and the implications for Austria are vast. Some of Austrian society is proving distinctly unwelcoming, and the source of their anxiety is clear: here shoppers jam up 38 miles on either side of the Austro-Hungarian border

Kurt Waldheim: not yet gone, but as good as forgotten

IN THIS SURVEY

## AUSTRIA 2

*Judy Dempsey reports on the Green and 'blue' challenges to the government*

# An uneasy coalition

AUSTRIA's socialist-led coalition government is likely to win the next election, but both parties will cede votes to the Greens and the right-wing Freedom party.

Despite a turbulent start in January 1988, largely due to fundamental differences over President Kurt Waldheim's controversial wartime past, the coalition managed to push through a radical tax reform, embark on a long overdue discussion about a pension reform and reduce the budget deficit. But none of these successes will be enough for either party to win a majority in the elections on October 7.

Of the two parties, the Socialists (SPOe) are in better shape. Mr Franz Vranitzky, the Chancellor, who is chairman of the party, has imposed – through sheer force of personality – considerable discipline throughout the ranks.

The split was essentially between the old school of "ideological" socialists, committed to State-run enterprise, the welfare state, and lukewarm towards the European Community; and the more technocratic social democratic orientated faction, which was set on cautious privatisation modernising Austrian industry.

In addition, the party was riddled with scandal. Last year, Mr Karl Blecha was forced to resign as Interior Minister following allegations of a corruption scandal, and the party's general secretary resigned for tax evasion.

As if that were not enough, the Chancellor himself was called to give evidence in the Noricum trial, in which Noricum, the weapons subsidiary of Voest-Alpine, the state-owned steel and engineering group, was accused of illegally selling arms to Iraq in the mid 1980s.

Yet for all these divisions and handicaps, the party seems to have weathered the storms largely for one reason: the Chancellor's personality.

"The party knows there is no other leader to lead them into the next election. There is a cult of personality around Vranitzky at the moment," a senior SPOe member commented. The cult has managed to catapult the few pragmatists and technocrats into the limelight at the expense of marginalising the old ideologists.

The ailing conservative People's Party (OeVP) has not been spared the shadow of the Chancellor's personality, which hangs over them like a recurring headache.

It had been hoped that Mr Josef Riegler, the former Agriculture Minister who succeeded Mr Alois Mock, the incumbent Foreign Minister, as head of the OeVP, might be able to inject new energy into the party, but he has failed miserably.

Part of the reason is that the OeVP is an undisciplined party hungry for power and anxious to attain the dominant partnership even if it means forming a coalition with the "blues," the Freedom Party led by the charismatic Mr Joerg Haider.

The middle level ranks of the OeVP, particularly those in the Lander or provinces, which wield considerable power at the expense of Vienna, continually bicker with the party's top echelons and chaff at the possibility that once again they will be playing second fiddle after October. But the OeVP has little choice.

Recent opinion polls show that sections of the farming community, once the bastion of "black" power, are shifting their votes away to the Greens. This is noticeable in Tirol in the south, which has to contend with heavy traffic and pollution. The polls also indicate that both parties will lose about 5 per cent: the SPOe will come home with between 40 and 41 per cent of the vote; the OeVP with about 33 per cent, and the FPOe anywhere between 16 and 20 per cent. That makes Mr Haider a real force with which to be reckoned.

The attraction of the FPOe is its populism. Formed out of the rump of old Nazis after the Second World War and saddled with a small liberal wing, Mr Haider has attempted to revamp the image of the party.

He has done it in two ways. First, he has appealed to the sentiments of the "small man" who feels aggrieved by the gargantuan bureaucracy identified with Vienna.

In addition, he has singled out Vienna as the den of privilege and corruption, where "jobs for the boys" are handed out in return for political loyalty. Mr Haider wants an end to that, as does the yuppy-end of the younger generation who feel they can afford to, and are confident enough to break with tradition and cast vote for the "blues" in the autumn.

More worrying for the coalition is the way in which the FPOe often unashamedly uses the influx of eastern European refugees for political ends. Austrian xenophobia is rarely far from the surface, a fact of which the SPOe is acutely aware. When several hundred young Romanian men were billeted in the village of Kaiserstandbruck, there was practically a rebellion by the local inhabitants who said that the women would be raped by the visitors. Indeed, sections of the OeVP are just as quick to capitalise on these sentiments.

But it will not win them many votes. Unable to agree, Austria's two main political parties may be destined to live with each other for some years to come.

# Unflappable Vranitzky

ONE would never think Austria is facing a general election in October. Or that its east European neighbours have just shaken off four decades of communist rule. Or that the Nato countries are now reappraising strategy. Or that thousands upon thousands of Czechs and Slovaks, Poles and Bulgarians, Romanians and Soviet citizens will wend their way to Austria over the summer months.

None of these momentous events appears to have unnerved Mr Franz Vranitzky, the socialist Chancellor who has been at the helm since January 1986.

Then, the future of the coalition was in doubt. Mr Kurt Waldheim, the controversial President who was accused of lying about his wartime past, placed a considerable strain on the government. Few senior Austrian politicians today bother talking about the President: they politely say that in 1992 his time will be up.

Mr Vranitzky, in contrast, is hoping he will still be Chancellor after October 7, the date of the elections. His election ticket will not be the "whither Europe" theme which would almost certainly lose him votes because of the spectacularly low interest in international affairs on the part of the media and Austrians generally. Besides, lurking in the Austrian consciousness is a feeling that events have bypassed the small country.

Instead, his campaign will be based on four issues: the environment, education, modernisation – including full employment, and the "Europeanisation" of Austrian industry.

The Chancellor, for instance, wants new ways to deal with

Mr Vranitzky: difficult times

rubbish. That may not be such a burning issue in Austria today; but there is a growing green awareness, and the considerable sums invested in the protection of the environment and the infrastructure will gain votes for the party which is most committed to ecological issues.

**The campaign focus will be on environmental and other social issues**

The environment, so unashamedly neglected under communist rule in the race towards industrialisation and higher productivity, will pose new problems for the next government.

Mr Vranitzky is also keen to press ahead with a reform of the education system. What he has in mind is a system of retraining for blue-collar workers coupled with a recognition that the craft industry, which still exists in Austria, demands investment and appreciation.

Channelling resources into these areas, the Chancellor believes, would soak up unemployment, which, at 3.5 per cent of the workforce, remains one of the lowest among the OECD countries. At the same time, the once taken-for-granted subsidies for State-owned industries are a thing of the past – although the government is not shy about offering incentives in the form of subsidies to foreign companies such as Chrysler, the US car maker, to set up shop in Austria.

On wider issues, such as the European Community or how to respond to the changes in eastern Europe, the Chancellor remains realistic. Austria's application in Brussels awaits formal negotiation, which Vienna hopes will take place soon after 1992.

As regards relations with eastern Europe, Austria is short of capital but big on contacts, languages and cultural affinity with its neighbours. One sensitive area is that of what to do with immigrants, who are desperate for higher living standards in the shortest period of time.

Solutions (and money) will have to be found to deal with the growing controversy over the Czech nuclear reactor at Temelin, which borders with (non-nuclear) Austria. The Chancellor will have to temper Austrians' cool attitudes towards their eastern cousins. This will require skill and patience.

## EUROPEAN COMMUNITY

# A mood of optimism prevails in Vienna

AUSTRIAN OFFICIALS are confident that formal negotiations to join the European community can start at the end of 1992, despite the recent upheavals in eastern Europe and Austria's neutral status.

This sense of optimism and confidence along the corridors of Ballhausplatz, home of the foreign ministry, is due to "a positive chemistry" which has set in between Brussels and Vienna.

"There is now a considerable understanding that Austria would be a valuable partner for the community," says Mr Manfred Scheich, one of the country's main EC negotiators. He also thinks, in a reference to Austria's neutral status, that "attitudes (in Brussels) towards the problematic aspects of Austria have substantially decreased."

A year ago, the mood among Austrian officials was more than downbeat. They were concerned that the country's neutrality would be compromised, particularly in the light of moves by the EC towards a political union.

Mr Scheich and others now believe the neutrality issue is no longer a stumbling block. "The neutrality issue is not a qualitative obstacle. Indeed, it could be a considerable asset for the European Community. It would add to the (geographical) force of gravity in the EC," says a confident Mr Scheich.

This marked shift in attitude is due as much to the changes which have swept across eastern Europe over the past year as to Austria's less obsessive perception of its neutrality.

Few doubt that the scale of the revolutions in eastern Europe has undermined the Warsaw Pact as a cohesive military and political alliance, as well as Comecon, eastern Europe's trading organisation. In turn, however, these have reduced what Austrian officials term the "confrontationist" policies between east and west.

"It must be remembered that Austria's neutrality is part of the east-west context," commented a senior foreign policy government adviser.

**Resentment about the influx from east of the Danube contrasts with the official view**

"As a result, the changes in eastern Europe have had a psychological impact on Austria's application to join the EC," adds Mr Scheich.

Curiously, the impact of all these momentous changes on Austria has not been immediately apparent to the Austrian "burger" in the street.

Indeed, Austrians tend more and more to resent the influx of refugees and eager travellers from east of the Danube, which contrasts sharply with the officially-stated view that Austria has and will remain a home for refugees. The liberated peoples of eastern Europe are no longer regarded as refugees; they should, in the minds of more nationalist – even xenophobic – Austrians, stay at home.

However, in the context of the EC, Mr Scheich says that over the past year and behind the scenes, Vienna has been "shovelling" material to Brussels which involves answering questions, looking at the country's employment policies (towards other European nationals), and dealing with complaints about monopolies, agriculture and subsidies.

These activities have undoubtedly impinged on current Austrian firms and laws whereby Parliament, one of the less energetic institutions in the country, is paving the way towards bringing the country's laws into line with EC norms.

"Look, there is no third way. You cannot have integration with the EC without full membership," explains Mr Scheich, adding rather more forcefully: "Our aim is to be fully integrated with the EC. The point is that we have to keep this momentum up. And this is a widespread opinion in Brussels as well, that we can start formal negotiations towards the end of 1992." Mr Scheich and his colleagues believe that once the formal negotiations start, they can be speeded up, because many of the outstanding problems will have been identified in advance.

But will Europe's own preoccupation with eastern Europe bypass whatever interest Brussels had in Austria? Will the EC be distracted by moves by new governments to edge closer to the EC?

"I do not think anyone in Brussels sees eastern Europe becoming fully integrated," said a government foreign policy adviser. "And I do not think we have to worry about these overtures by the east."

Judy Dempsey

*Austria can look forward to some benefit from West Germany's boom, Andrew Fisher reports*

# Economy in a 'sort of free-rider position'

WITH Austria's buoyant economy so closely linked to that of West Germany, economists in Vienna are forecasting a further potential growth uplift from the union of the two Germanys.

Their optimism is, however, by no means unbounded. Repairing the broken economies of eastern Europe and rebuilding their infrastructure will take a long time, and the effort required will be huge. "It will be a very long-term process," says Mr Erhard Fürst, chief economist of Creditanstalt-Bankverein, the country's largest bank. "We shall only see really positive results in seven to 10 years."

Countries like Hungary, Czechoslovakia, and Poland have no rich neighbour to help them transform their economies, as East Germany does in West Germany. Mr Fürst cites the tremendous problems Austria has had itself in sorting out its smokestack industries. "These account for more than half the economy in eastern Europe." Even a newly thriving small business sector could not grow fast enough to offset the problems at the heavy end.

**Even a newly thriving small business sector couldn't grow enough to offset the problems at the heavy end**

Mr Fürst says: "I am more pessimistic over eastern Europe, although I am convinced Austria will be one of the first to profit from positive developments. There will be strong chances for lots of companies. It is about the macro-economic side that I am concerned."

However long it takes for the benefits of the free market to penetrate eastern Europe, there is no doubt that Austria is in a good position to derive extra growth impulses from developments east of Vienna. "Between the wars, between 30 and 40 per cent of Austria's exports went to the east," notes Mr Johann Kernbauer, a top Finance Ministry official. "Now, it is around 8 per cent."

Developments in the Soviet Union could darken the picture. "If the Soviet Union falls into chaos, its tight economic links with other eastern European countries would have a strong impact," warns Mr Kernbauer. Assuming no such disasters, however, the Austrian Institute of Economic Research (WIFO) reckons the opening up of eastern Europe will add an extra 1 per cent stimulus to growth over the next four years.

"We have to take these chances," asserts Mr Georg Busch, an economist at WIFO. "We regard ourselves as being in a sort of 'free-rider' position. We can obtain extra growth from West Germany, but we don't have to share the cost burdens of reunification. West Germany will have to exercise budgetary restraint. We will not have those negative effects."

Events to the east, both political and economic, are hardly the sole preoccupation of Austrian economists, policymakers, and executives, however. The country's economy is heavily oriented towards the EC and has performed very well on its own, partly because of the strength of foreign, especially West German demand, and partly through domestic policy changes.

The verdict of the latest OECD report on Austria was positive. "For more than two years, economic growth has been unexpectedly vigorous," it said. Initially, it was propelled along by exports – up by a nominal 12 per cent in each of the past two years – then developing a broader base as a result of the 1989 tax reforms. Inflation has been kept at bay, last year totalling only 2.5 per cent; industrial investment has accelerated; and the large trade deficit (Sch86bn in 1989) has continued to be offset by high tourism receipts.

Last year, Austria's gross domestic product (GDP) rose by a more than respectable 3.8 per cent, twice the rate of 1987. For 1990, WIFO has forecast a 3.5 per cent rise, though it is likely to upgrade this to nearer 4 per cent as a result of the incremental growth expected from eastern Europe via West Germany. First quarter growth was strong.

Since much of West German industry is now fully stretched, operating at capacity levels not reached for some 20 years, the chances for Austrian companies to meet some of the extra demand are high. This also brings the risk of increased, though hardly rampant, inflation, with WIFO expecting a slight rise to 3.2 per cent this year and 3.5 per cent in 1990. Unemployment is likely to edge below 5 per cent.

The home-grown efforts to improve the structure and performance of the Austrian economy fall into three main categories, as set out by the OECD, namely an end to Keynesian spending policies, a reshaping of state industry, and the introduction of tax reforms aimed at boosting the economy's supply side.

Firstly, the Government set itself the target of bringing down the Federal budget deficit from 5.5 per cent of GDP in 1986 to 2.5 per cent in 1992. Last year, it had come down to 3.7 per cent.

Secondly, there were strenuous efforts to overhaul the ailing state industry sector, notably with the large-scale restructuring of the nationalised holding company (now known as Austrian Industries). This policy was helped considerably by the upsurge in world steel demand.

Finally, the Government brought in a tax reform which included tax cuts of some Sch45bn. At 30 per cent – cut from 55 per cent – Austria's corporation tax is the lowest in Europe. The top rate of income tax was slashed from 62 to 50 per cent. "Ten years ago, this would not have been thinkable," says Mr Furst.

**There is still plenty to be done: much of the economy – especially trade – remains highly regulated**

There is still plenty to be done. Much of the economy remains highly regulated, especially trade. "We have a pretty large sheltered sector," comments Mr Busch.

The OECD report noted sternly: "Only first and modest steps have been taken to reduce and streamline subsidisation and to deregulate the economy." It called Austria "one of the more regulated economies in the OECD area." A strong corporatist element, which had kept down price rises and unemployment, had favoured the maintenance of barriers to market entry. This was most obvious in the professions, crafts and transport.

The tackling of these hindrances to the development of a more dynamic, flexible, and thus robust economy is an obvious priority for the 1990s, especially with the onset of the internal EC market. So is more privatisation. Austria's hopes of joining the EC and of profiting from the events in eastern Europe make it essential that its own economy gains greater freedom of manoeuvre.



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BANKING: It is hoped Vienna will win back its pre-1914 position as a financial centre, writes **Andrew Fisher**

# Good fortune from the east

"WE were a backwater. Now we're in the swim of things."

Mr Hans Haumer, chief executive of Girozentrale, Austria's second largest bank, was referring mainly to the sudden change in the city's geographical significance wrought by events in eastern Europe. It is a judgement shared by many of his Austrian colleagues, as well as the growing number of foreign investors, institutions, and corporations which have now started to take Vienna more seriously.

There are several reasons:

- The opening up of eastern Europe promises to benefit Austria once the huge task of economic reconstruction is under way;
- Austria's own buoyant economy has alerted investors to the opportunities on Vienna's stock market;
- Government actions in selling off shares in big companies, consolidating the budget, and reforming taxes have added new impulses to the economy;
- Capital market liberalisation has made for greater investment freedom, while a new stock exchange law has added confidence by requiring more financial disclosure, prohibiting insider trading, and paving the way for a futures and options exchange.

"Based on developments in Austria and the overwhelming events in the east," says the optimistic Mr Haumer, "Vienna can win back the historically significant position it held as a regional financial centre before 1914." He adds, however, that "conditions have to be improved."

It is easy to see what he means. By international standards, the Vienna bourse is still tiny, underdeveloped, and subject to wild fluctuations. Last year, it advanced by a staggering 111 per cent. As one experienced market analyst put it somewhat cynically, "this was even before the whole Ostzirkus (eastern circus) burst upon us."

In the first quarter of 1990, it advanced by a further 40 per cent, although it then received a sharp correction and slid back. Foreign investors have clearly played an important role in propelling the stock market to new highs after years in the doldrums, but domestic wealth has also been subject to what one private banker describes as an "explosion" as post-war generations reap the benefits of decades of economic reconstruction.

With only a tiny proportion of citizens owning shares – even fewer than in risk-shy West Germany – the potential for equity growth is strong; but there are several hindrances. For one thing, the market is tight, with a shortage of stock and too few market newcomers in a country where the state, banks, and family owners are the main shareholders. There is no real publicly quoted company in Austria where the shares are widely held.

The privatisation of Government shares in Austrian Airlines, OeMV (the state-owned oil company), the Verbund (the big electricity utility), and two big banks (Creditanstalt-Bankverein, the biggest, and Länderbank, number three) has added to the supply of stock. Further state sell-offs await the result of the next general election later this year.

As for genuine new issues, there were only seven in 1989, although the pace of listings is more rapid this year. One intriguing newcomer is Ibusz, the leading Hungarian travel agency, brought to the Vienna and Budapest markets by Girozentrale, the central financial institution for Austria's savings banks. Girozentrale had also intended to bring Tungsram, the Hungarian lighting company, to the bourse, but its near 50 per cent stake was bought by General Electric of the US.

"We still need more foreign and domestic stocks," says Mr Haumer. He would also like to see the stock exchange turnover tax abolished, a step about to be taken in neighbouring West Germany. Austria also has a withholding tax on dividend and interest income, something quickly dropped in Germany.

The sharper focus on Vienna's financial prospects has also drawn attention to the performance and outlook of the big banks. Not surprisingly, they are keenly adding to their representation in eastern Europe, seeing this as a great business opportunity.

At this early stage, it is impossible to assess how quickly and how well countries like Hungary, Czechoslovakia, and Poland will adapt to the free market. Thus for Austrian banks and corporations, western Europe will continue to be the main field of activity. West Germany is by far Austria's biggest economic partner, but the country is tightly linked in trading terms to the EC.

For Austria's banks, the coming of the EC's internal market in goods and services (including financial services) will pose new challenges. It is these to which they and the Government are now turning their heads. "We must create larger units to become a European player," says Mr Wagner.

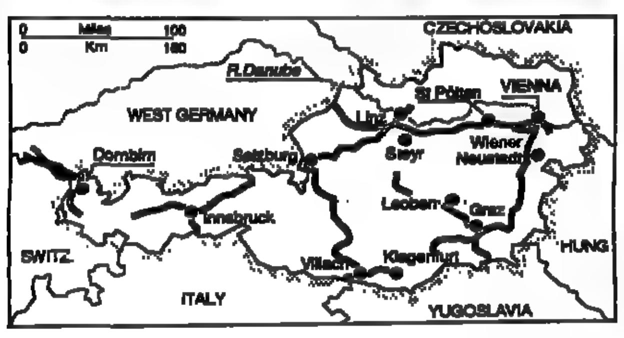
One form of pressure for reshaping the banking sector could come from the Government. The Finance Ministry has indicated that the state holdings in Creditanstalt and Länderbank could be brought below 51 per cent, if structural changes also came about.

"We need more competitive units," agrees Mr Guido Schmidt-Chiari, Creditanstalt's chief executive. "But this is a question not just of size, but also of services; we need both capital and management."

Because of the tight network of local and regional savings banks, adding new capacity is hard. Thus, paradoxically, Creditanstalt is opening new branches in a country which is already over-banked.

Foreign competition will inevitably increase, with Deutsche Bank, Germany's biggest bank, now present through its purchase of Antoni, Hacker, a private Austrian bank. With Austria's financial world seething with new possibilities, it seems likely the state will cut its stake in the big banks below 51 per cent after the election. "There are far fewer taboos than in the past," notes Mr Schmidt-Chiari.

## KEY FACTS




| | |
|---|---|
| Area | 83,850 sq km |
| Population | 7.6 million (1988 estimate) |
| Head of State | President Kurt Waldheim |
| Currency | Schilling = 100 groschen |
| Avg Exch Rates | 1988 \$1 = AS12.35, 1989 \$1 = AS13.23 |

**ECONOMY**

| | 1988 | 1989 |
|---|---|---|
| Total GDP (\$bn) | 127.2 | 126.4 |
| Real GDP growth (%) | 4.2 | 3.8 |
| GDP per capita (\$) | 16732 | 16522 |
| Components of GDP (%) | | |
| Private Consumption | 55.7 | |
| Gross Fixed Cap Formation | 23.5 | |
| Increase in Stocks | 2.1 | |
| Government Consumption | 18.4 | |
| Exp of goods and services | 37.4 | |
| Imp of goods and services | -37.1 | |
| Current Account Balance (\$bn) | - 0.316 | 0.013 |
| Exports (\$bn) | 31.03 | 32.44 |
| Imports (\$bn) | 36.55 | 38.90 |
| Trade Balance (\$bn) | - 5.52 | - 6.46 |
| Main Trading Partners (% of total value): | 35.0 | |
| Exports West Germany | 10.4 | |
| Italy | 64.0 | |
| EC | 11.0 | |
| EFTA | 9.0 | |
| Eastern Europe | 44.5 | |
| Imports West Germany | 8.9 | |
| Italy | 68.0 | |
| EC | 7.0 | |
| EFTA | 6.0 | |
| Eastern Europe | 2.0 | 2.6 |
| Consumer prices | - 0.2 | 1.7 |
| Wholesale prices | 2.2 | 3.9 |
| Industrial wage rates | | |
| Unemployment (% of labour force) | 5.3 | 5.0 |
| Trade weighted exchange rate | 107.5 | 107.0 |
| (yearly avg) | 8.5 | 3.4 |
| M1 growth rate (% pa) | 4.2 | 7.9 |
| M2 growth rate | 12.6% | 14.4% |
| Household savings ratio | 4.00 | 6.50 |
| Discount rate (end period) | 4.59 | 7.46 |
| Money Market rate | 6.67 | 7.14 |
| Government Bond Yield | 190.05 | 353.48 |
| Credit Aktien index (avg pa) | | |

Source: IMF, Datastream, Economist Intelligence Unit



# Central bank president with a good line in persuasion

BUT for a change of mind caused by her mother's illness, Maria Schaumayer might never have embarked on the career path that has led her to one of Austria's top, and best paid, jobs – president of the central bank.

"I was going to emigrate to Uruguay." Why Uruguay? "It was regarded as the Switzerland of South America at that time. It would have been a terrible mistake. I would have come back pretty soon."

She would probably have made her mark even in Uruguay. In a career which has progressed through Austrian banking, local politics, and industry, she has impressed her male colleagues – women in top jobs are a rarity in Austria – with her application, consistency, and charm.

Before being unexpectedly summoned to take on the presidency of the Austrian National Bank on June 1 this year, Ms Schaumayer, 58, had actually retired. Her previous job was finance director of OeMV, the State-owned oil company, now partly privatised.

An energetic proponent of privatisation, she thinks it should go beyond share sales, which still leave the state with a majority.

Maria Schaumayer: coaxed from retirement

"I am an advocate of complete withdrawal. The state should withdraw from industry and the economy as far as possible in a competitive world."

Would she use her influence as head of the National Bank to promote this view? "Sure." How? "By persuading," she says convincingly between puffs on her cigarette.

Full privatisation, she adds, would be good for the country's economic and financial standing.

The post-war nationalisations were made to keep companies and banks out of the hands of the Allies, who would have taken them over as German assets. "Therefore, it is logical to ask: If nationalisation was not ideological, why should denationalisation be ideological?"

It is a standpoint with which some politicians in the ruling Social Democrat-Conservative coalition – she is in the latter camp – still find it hard to come to terms. Even so, Austria has made considerable progress in selling state shares – OeMV, her former company, being the first to go partly private.

Just as the share sale was about to take place, the Wall Street crash of October 1987 stunned the world.

Ms Schaumayer had arrived in the town of Bregenz for a company presentation. "I walked into the hotel lobby and saw the crash reported live on TV. I couldn't believe it; I thought it was a film."

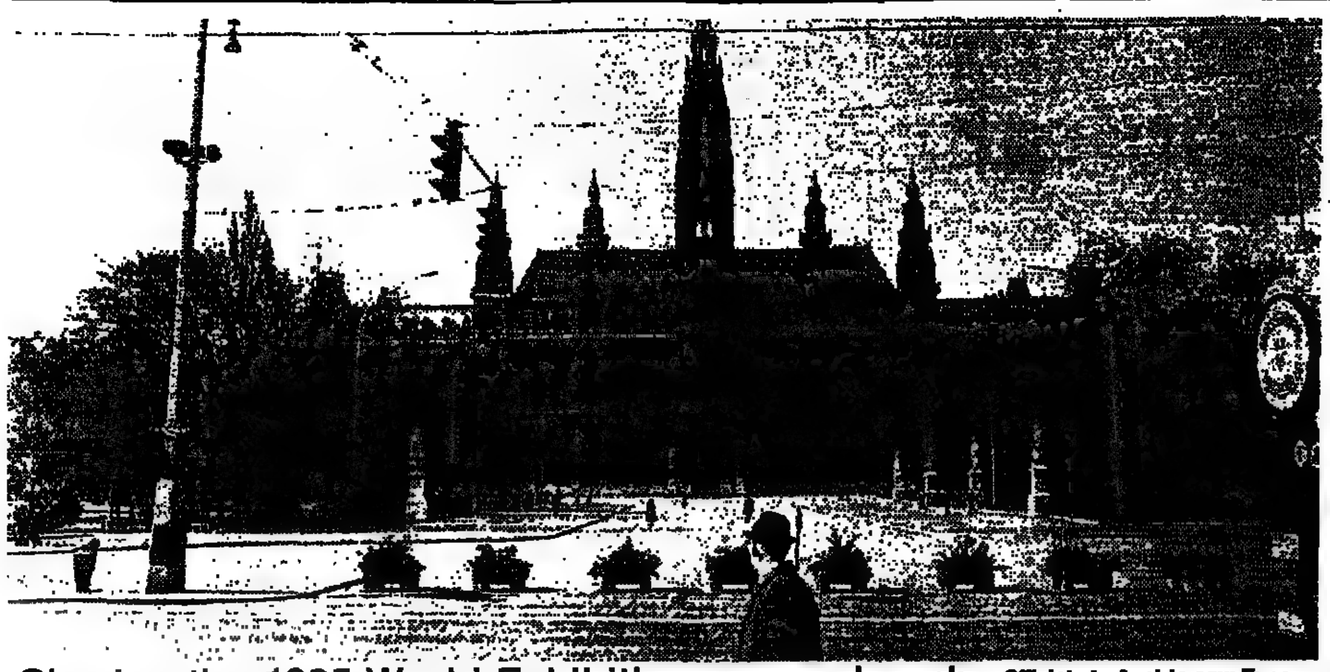
The sale went ahead, though in stages.

Today, the new Central Bank president faces different challenges. In policy terms, however, little will alter. The Schilling will stay pegged to the D-Mark, and stable monetary policies will be maintained.

The bank has taken on a new task in helping the national banks of Poland and Czechoslovakia adjust to the end of communism. The exciting developments in the east have also heightened Vienna's profile as a business and financial centre.

Discussing the huge task east European countries have set themselves in switching from planned to free market economies, she recalls Austria's post-war traumas. "It took 10 years – until 1955 – before Austria could rebuild its economy."

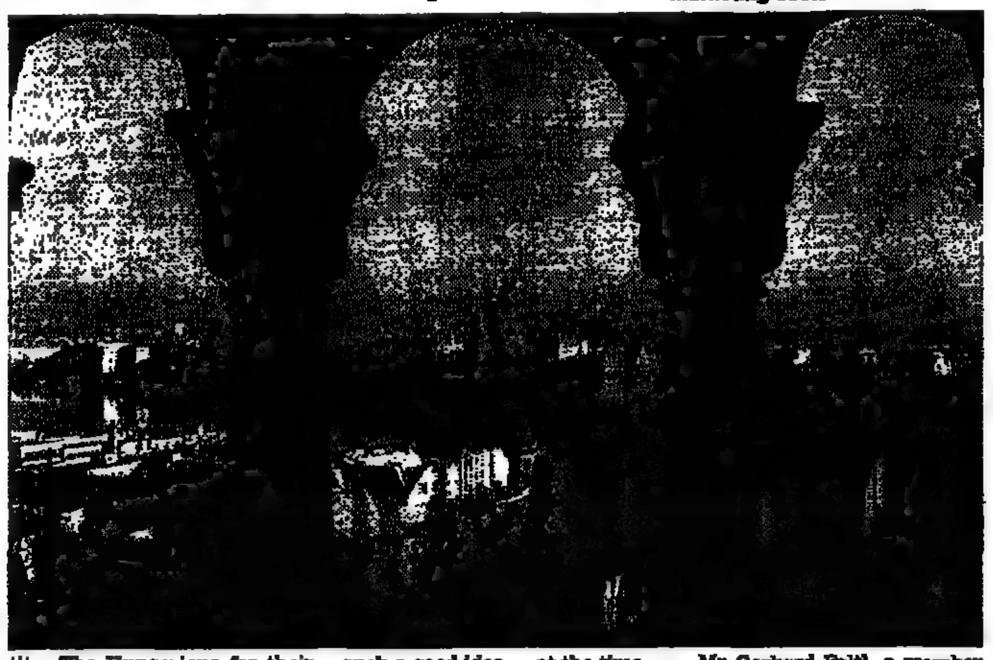
*She relishes change.* "Changing times are challenging times," she says, showing every sign of looking forward to any challenges that may emerge.



Sharing the 1995 World Exhibition seemed such a good idea at the time, writes **Judy Dempsey**

# All the fun of the Fair in Vienna and Budapest

**Officials in Austria saw Expo 95 as a useful way to expand links with Central Europe and give the city of Vienna, above, a new identity; those in Budapest, below, saw it as a useful way to attract Western investment for its infrastructure and tourist facilities. Today, however, the cities are both saddled with planning, construction and marketing costs**



THE SCEPTICS call it "folklore." The organisers call it a "Bridge to the Future." Bankers shudder at the costs. Whatever the views, the timing of the 1995 World Exhibition, or Expo 95, to be held jointly by Vienna and Budapest, is fortuitous as it is poor.

Fortuitous because tourists, thanks to the revolutions in eastern Europe, now know where Hungary is. Poor because officials in Vienna and Budapest had no idea, when they jointly campaigned to hold Expo 95, that the iron curtain would soon be lifting and bridges would be made redundant.

A year ago, the city of Vienna, run by Mr Helmut Zilk, a socialist politician who thrives on publicity, and Communist Party officials in Budapest, who had not a Forint to their credit to finance such a mammoth exhibition, organised their lobby. It was effective: Vienna and Budapest were chosen to be joint hosts of Expo 95.

Austrian officials saw this as a useful way to expand links with Central Europe and give the city of Vienna a new identity. The Hungarians for their part saw it as a useful way to attract Western investment for its infrastructure and tourist facilities. In fact it all seemed such a good idea – at the time.

Today, however, the cities both find themselves saddled with planning, construction and marketing costs.

Mr Gerhard Feitl, a member of the managing board of Expo-Vienna AG, a company set up to finance, market and plan the Austrian end of Expo 95, is taking it all in his stride.

The World Exhibition, he says, will coincide with the 1,000th anniversary of the founding of Austria. It will be situated largely on the banks of the Danube, near the United Nations Centre.

The infrastructure costs, which will amount to between Sch15bn and Sch18bn, will be borne by the City of Vienna. The more-than-Sch3.5bn operating costs – marketing and advertising – will be financed by sponsors, royalties and television rights.

The pavilions, which will cover an area of 52 ha, will be financed by the private sector. The hope is that these will be put to good use after the six-month Fair comes to an end.

The Hungarians still worry about the costs and were almost tempted to pull out. However Mr Jozsef Antall, the recently elected Prime Minister, has thrown his weight behind Expo 95 even though the country is struggling with a hard currency debt of more than $20bn and a large budget *deficit*.

The Austrian authorities insist they will not finance the Hungarian end.

The Hungarians, for their part, are hoping their skill in public relations and their appeal to West German, Japanese and successful Hungarian emigrés will provide the necessary funds for hotels, better roads and smart pavilions in the now industrial wastelands of Csepel, the old working class districts along the Danube.

**The organisers recognise the lure of Budapest could prevail to the detriment of sleepy Vienna**

They are also hoping tourists will opt for Budapest and not Vienna.

This is something of which the Viennese organisers are acutely conscious. They recognise the lure of Budapest could well prevail to the detriment of sleepy Vienna.

That is why Mr Feitl is determined to provide as much varied entertainment as possible at his end of the Danube – and then, he says, visitors can proceed to Budapest.

The concept of co-hosting the World Fair still excites Mr Feitl. "The Vienna and Budapest event will be the first truly supranational, the first truly Central European exposition, thanks to the twin-city concept," he says.

Three of the men at the helm as Austria changes course: Rudolf Streicher, Minister for Public Economy and Transport; Walter Fremuth of Verbund, and Anton Heschgl of Austrian Airlines

The state still holds sway, writes **Andrew Fisher**

# Privatisation debate

TWO powerful influences hold sway over industry in Austria: *the state and foreigners*. The Government has sold off shares in a number of companies, notably Austrian Airlines, the Verbund utility, and OeMV, the oil company. But it still holds the majority.

It has also brought its holdings in Creditanstalt-Bankverein and Länderbank down to 51 per cent and thus its indirect stakes in the extensive industrial interests of both banks. These interests have been reduced in size as part of the necessary process of improving profitability, but they still make up a large part of the country's industrial capacity.

As for foreign companies, they have invested heavily in Austria's industry. Big outside investors include BMW, the West German motor manufacturer; and Grundig, the German home electronics concern run by Philips of Holland. Shortly, Chrysler, the US car company, will join them.

State ownership of Austrian industry came about after the last war as a means of holding on to assets which might otherwise have been confiscated as German property. Later, it became embedded in the policies of the Social Democrats, while the conservative People's Party also thought it desirable for the Government to own sources of raw and semi-finished materials.

These cosy ways of thinking were rudely shattered, however, by external and home-made crises, which led to a partial state withdrawal from the so-called "commanding heights" of industry. But bringing key stakes below the 51 per *cent level is still subject to considerable opposition, or at least doubt, on the part of politicians and managers.*

To some extent, the concern is linked with the question of existing foreign ownership. "Forty per cent of Austria's industry is in foreign hands," says Mr Rudolf Streicher, the Minister of Public Industry and Transport. Thus the sale of further state shares to take ownership in companies down to 49 per cent or less could lead to a higher degree of outside control, if foreign companies picked up enough shares.

Mr Streicher mainly had in mind the case of Austrian Industries, the big state-owned conglomerate, the activities of which embrace steel, oil (OeMV), plant and machinery, chemicals, and electronics. AI's new and straightforward anglicised name – it was formerly Oesterreichische Industrie Holding (OEIAG) – certainly does not meet approval from all members of the business community, some of whom feel that it somewhat arrogantly assumes the premier place in the country's industry.

In terms of size, it certainly does, accounting for nearly a fifth of exports and 15 per cent of manufacturing jobs. But the name also represents a break from an embarrassing past, in which OEIAG became almost synonymous with mismanagement, patronage, and heavy losses which had to be met by taxpayers' subsidies. Voest-Alpine, the steel and engineering part of the group, had *big* losses on oil in the mid-1980s, with chemicals also in the red.

These disasters prompted the Government into action. OEIAG's structure was streamlined and simplified, its labour force sharply reduced, investments stepped up, asset sales made which raised Sch14bn for the group, and its management totally revamped, with the able Mr Hugo Michael Sekyra put in as chief executive. Mr Sekyra has recently been doing the international rounds, heading a roadshow to promote AI's "going public" loan of Sch3bn, later convertible into shares of the company.

**Privatisation, some say, remains an academic issue at this stage**

Both he and the Government are determined that AI will remain Austrian-controlled. Since privatising even half of it would require investors to stump up around Sch30bn, Mr Streicher regards the issue as academic at this stage, as the bourse would not be able to absorb that volume for some time. In principle, though, he says it would not matter whether the state had 51 or, say, 30 per cent.

To the heads of the companies still under state majority ownership, it matters a great deal. Mr Walter Fremuth, chief executive of the Verbund, which provides more than half Austria's electricity, mostly *from hydro-electric power, is* adamant he does not want to see the state's share go under 50 per cent. A Social Democrat, he asserts: "I shall refuse more privatisation. I'm a fighter."

The Verbund is one of the groups which stands to benefit considerably from the new links now opening up with eastern Europe. It already has a series of deals involving the import and export of power from and to the east. More than 10 per cent of its turnover derives from this, a proportion Mr Fremuth thinks could double in time. Some of these deals benefit other western European countries like Switzerland and Italy.

The expansion of its east-west business, however, will depend on the completion of a new grid network, parts of which are opposed by the green movement. The total investment in this project is around *Sch25bn, of which a* third has already been spent. The Verbund is also helping countries in eastern Europe to modernise their old, polluting energy systems.

"We are not the heart and not the brain of Europe, but we are in the centre of Europe," says Mr Fremuth sagely. It is a statement which could also be applied to Austrian Airlines, which hopes to use Vienna's pivotal position between east and west as a base for future expansion. Foreign carriers like Swissair, Air France, and Japan's All Nippon Airways have taken stakes in the Austrian airline.

Mr Anton Heschgl, Austrian Airlines joint chief executive, says he would not mind the Government owning less than half of the company's shares. At the moment, however, he has other priorities. Austrian Airlines hopes to establish close co-operative links with CSR, the Czech national airline, and maybe even take a financial stake. As well as building on its links with eastern Europe, it also wants to extend its worldwide network, having begun flights to New York and Tokyo.

It is easy to gain the impression that all of Austrian industry has some form of state influence. But there is also a thriving, bustling private sector, typified by such companies as Montana (financial services, mining, and chemicals), Plansee (special hard metals), and Lauda Air, the small airline headed by former racing driver Niki Lauda "the sympathetic, aggressive Lauda" as Mr Streicher calls him.

Helped by a less paternalistic attitude on the part of the Government, tax reforms, and the general buoyancy of the European economy, Austria's industry is generally performing well. With possible membership of the EC in prospect and the tasks to be undertaken in eastern Europe, companies have plenty of challenges to meet in the 1990s.

## ARTS

### ARCHITECTURE

# British grand designs in Paris

It was out of a field of 480 entries that the small UK practice of Armstrong Associates won the recent competition for the *Maison du Japon* in Paris. This is the last of President Mitterand's *Grands Projets* and it says a great deal for the competition system that an unknown young British practice could win. The jury was fashionable and high powered: Alvaro Siza; Tando Ando; Mario Botta; Fumihiko Maki; and they selected a *scheme* clearly because of its elegant simplicity.

There is an opportunity to see the model and drawings for this Paris building at the 9H Gallery, 26-28, Cramer Street, London, W.1. in an exhibition called *Reality and Project – Four British Architects* which is on until July 22. (It is probably wise to telephone – 071 486 3555 – to check the opening hours.) The 9H Gallery is the only gallery in London that regularly shows the work of young architects as well as regular exhibitions showing the best from abroad. It is a relief to see that after a temporary lull the gallery has survived its financial crisis and is open again.

*In the introduction to the exhibition* there is a long wail about the difficulty architects of quality have in getting work in the UK. The four practices modestly point out that had "Ken Armstrong, Pierre d'Avoine, Tony Fretton and Tim Ronalds lived and worked in France, Germany or Spain between them they would certainly have built several major projects." There is no mention of economic realities and no analysis of exactly who it is who commissions buildings.

It is indeed true that the sequence of civic museums in Frankfurt exceeds by far the number of similar commissions in Britain and whatever the quality of some of the *Grands Projets* in Paris there is no doubt that they represent an investment in modern architecture by a government that is extremely unusual. France and Germany are, of course, more prosperous than the UK and architects *will* reap the rewards of prosperity in due time. The lack of public work in the UK and the failure to update the infrastructure of our cities is rightly complained of, but architects are not alone in suffering from this.

The practice of Armstrong Associates was formed in 1986 and has already adopted a recognisable restrained modernism as its style. I am always amused by "architects-peak" and this practice declares "we have no interest in stylistic preoccupations or fluctuations of taste – what remains consistent in all our work is the development of a rigorous approach." The practice seems *unaware that it is precisely this* approach that so precisely determines the style of its work. Its decision, also, to "consciously avoid stylistic expression of technology, as an end in itself" makes it fairly clear what its work will look like. Its one completed job that is shown in the exhibition is a small showroom for the industrial designers Elementer. A rich variety of materials has been assembled in a small space against simple plaster and paint walls. It all looks deceptively easy, but it depends on good design and skilled preparation off the site; the construction work for this project was simple and speedy.

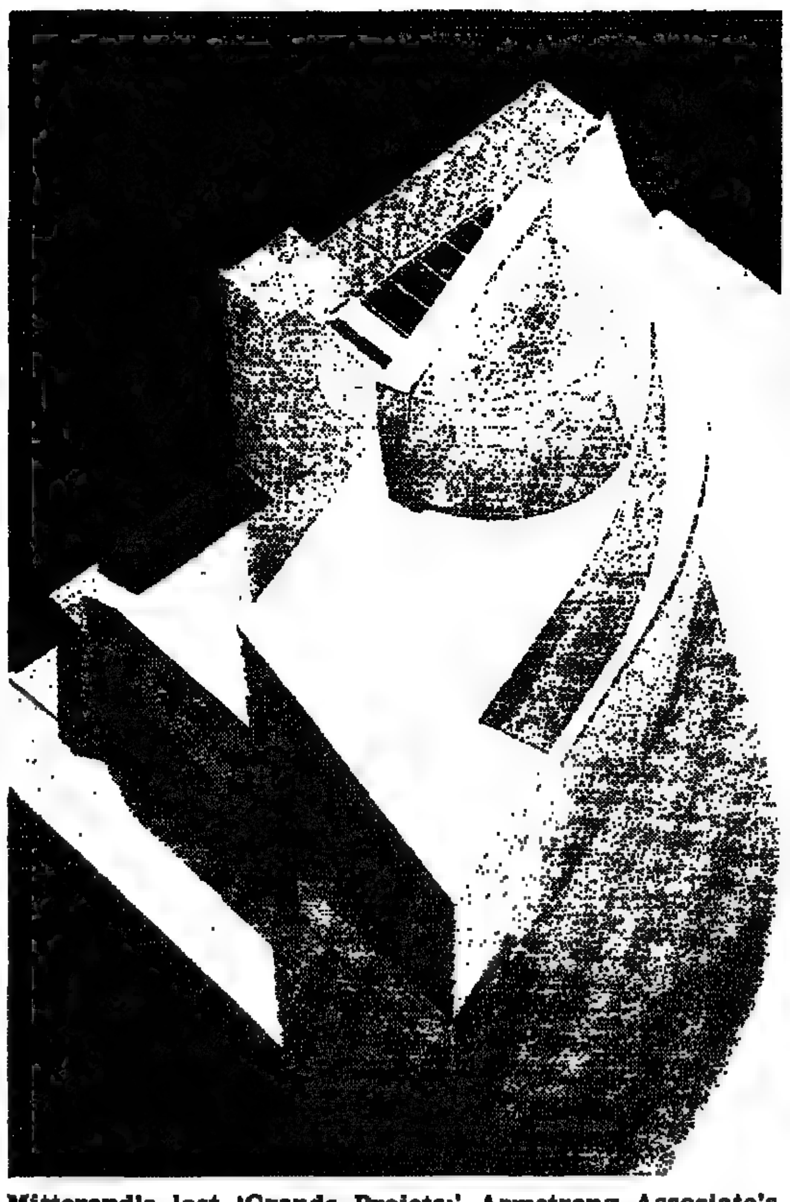
For the Japanese Cultural Centre, Armstrong has the advantage of a *splendid site by the Seine, not* unlike that now occupied by the *Institut du Monde Arabe* designed so spectacularly by Jean Nouvel. The design is simple. A curved segment is largely walled in glass, and in plan the mixture of public and private spaces seems both formal and flexible. There is a no formal unity about the design, but at the same time there is no deconstructionist arbitrariness. Like so many younger practices its raids the cupboard of recent and not so recent modern buildings. We can see here clearly the influence of Norman Foster's Willis Faber building in Ipswich and even the latest Paris Opera House. The detail of the glass wall is what will decide whether or not this is a good, modest building. It looks very promising. Restraint wins all the way in this design, and in 1993 it will be complete and ready for comparison with the other Grands Projets.

Alongside the Paris project, which will be built, is the runner up entry to another competition for the Bank of Portugal in Lisbon. It is possible to see again what Ken Armstrong learned from his time with Foster Associates. There is no doubt of the technical competence of this complex design although its lacks any lightness of touch in the actual architecture.

The other firms shown in this exhibition are more self conscious. Pierre d'Avoine has built a very extraordinary terrace of houses in Richmond that is engaging in its individuality. He jests at the expense of high-tech and creates a kind of suburban experimental art within a planner's straight jacket. His shops for the fashion designer Michiko Koshino play a sophisticated game with a surreal approach to technology. Like the paintings of Picabia or Duchamp, he takes the machine apart and places parts of it around for our curious viewing.

The other two architects on view, *Tim Ronalds and Tony Fretton, are* very unlike each other. Ronalds has recently completed the Jackson's Lane Community Centre in Highgate – an adaptation of an Edwardian church hall which initially appears to be surprisingly brutal. Tony Fretton has a background as a performance artist, but his architecture shows a learned reticence about the modern movement that is almost anonymous.

**Colin Amery**



Mitterand's last 'Grands Projets:' Armstrong Associate's winning design for the Maison du Japon, to be built by 1993

# Bernadette

**DOMINION THEATRE**

Goodness. So how is *Bernadette* (The People's Musical)? "How can" (I quote; it was my favourite line) "a minor create a major disturbance?"

The idea of setting the story of Bernadette of Lourdes to music has had people excited for months. Some of them have wanted it to be good because goodness is its concern; others have hoped that it would be not just bad, but "so bad that it's good." But *Bernadette* comes to us from a world that exists without either bad or good. It was conceived, written and composed, by Gwyn and Maureen Hughes, in that Eden where there were no offensiveness and no originality – nothing but good intentions and too much Andrew Lloyd Webber.

It has everything going for it but talent. It is all-singing. Few words are spoken and there is little recitative. The plot includes two lovers, poverty, child abuse, bullying, a death, nuns, priests and invocations to God. The decor (by Martin Collins) is picturesque and various. The townsfolk, whether complaining of poverty, bullying Bernadette, or just bashing each other, keep bursting into aerobics classes (choreography by Pat Dennison).

*Bernadette* isn't too bothered about telling a good yarn. Many of us took too long to realise that, before the action, Bernadette had been playing go-between between the two young lovers, and to understand, when Henri and Camille later appeared, who on earth they were. We saw Bernadette having her vision in the grotto, but we never heard her tell a soul (save us) about it until long after the townsfolk had started being beastly.

And it makes its own clichés. The Virgin's face, says Bernadette, had "that special glow;" but then *Henri* finds "that special glow" in Camille's eyes. Camille sings of her father (who abuses her) and of beloved Henri in virtually identical terms Bernadette sings of her vision, but what is so unusual in that? Her mother and Jacomet have separate arias starting "I had a dream" too.

The title role is really no larger or better than several others. Natalie Wright sings with white, breathy fervour and charm; she makes the role less like Maria (*The Sound of Music*) than Cosette (*Les Mis*). All the *performances* are respectable and none of them remotely memorable. How could they be?

These aren't memorable roles, words or songs. The best singer is the firm-voiced William Pool as Henri; no one else can stay in pitch for the big climaxes.

You can do a neat hand-jive to the 4/4 beat that finds its way into the mother's plea to God, the police interrogation of Bernadette (along with guitars and brass) and most of the show's other numbers. But *Bernadette* is not really for connoisseurs of camp – though those of them who do go should stay for the kitsch ending; candles, candles everywhere. If you take *Les Mis*. or *Miss Saigon* to be important works of theatrical art, maybe you can be disdainful about this. But really it is just a well-intentioned minor member of their all-singing, all-rhyming, cliché-laden family

**Alastair Macaulay**

Kenneth McClellan and Brenda Dowsett star as a bizarre couple at the Soho Poly

# A Stone's Throw from the Sea

**SOHO POLY**

Evelyn Ford's second play, more than 20 years in the making, is a confusing allegory of 20th century politics which takes place in a revolution signalled by flashes and thuds.

Another concern of this curious collage of a play appears to be with scientific advancement which has left mere human perceptions light years behind.

One of the characters in *A Stone's Throw from the Sea*, a smooth, elderly foreign correspondent (Nicholas Courtney), is vaguely aware that he may well have been blasted into a *different dimension. This* impression seems to be supported by the fact that Rosemary (Brenda Dowsett), the one woman in the play, appears able to see visitors to her seaside home only some of the time.

One might ascribe this to the senility of her husband (Kenneth McClellan), a one-time Communist and discredited Labour MP, were it not that the visitors clearly have a reality of their own.

Besides the foreign correspondent, there is Norman, a white rabbit of a man, whose presence – as interlocuter, surveyor or comrade at arms – seems *specifically* designed to undermine any impression one might have had of being able to get to grips with the situation.

And there is also Simon, the incarnation of disaffected and disinherited youth, who may or may not be Rosemary's illegitimate son by a poet for whom she once forsook her husband.

Simon (Richard Attlee) enters under the pretext of being a journalist but turns out to be stateless and in search of identity papers, and ends the play, in an image which could come straight from Edward Bond, half naked on a table, gorging himself on a feast of fruit and sandwiches which his mother has earlier laid out.

Where all this leaves us is by no means clear. Ford, herself a former journalist now in her early 70s, evokes Ionesco, Beckett and Bond, with echoes of *T.S. Elliot thrown in for good measure.*

Her politics, of revolution and counter-revolution, appear to be dominated by a pre-glasnost paranoia which takes on board the new realism of the British Labour movement but not the momentous recent changes in eastern Europe.

She is technically rather well-served by a production, directed by Jonathan Meth, which nevertheless appears designed to accommodate rather than explain the obscurities. Someone, somewhere, should have asked this writer to explain herself.

**Claire Armitstead**

# Masquerade

**LEEDS FESTIVAL**

The 1990 Leeds Festival opened this weekend with concerts, exhibitions, street events – and, in the Grand Theatre, *Masquerade* from Opera North.

Nielsen's second opera (1906) has here its first British professional production and the company, using an intelligently rhymed translation by Simon Andrew Stirling, have made a heart-warming success of it.

With hindsight, one may wonder why it was so long coming, since the beauty and richness of the work are *resoundingly proclaimed.*

After experience of this enchanting production, streaked with quicksilver wit, charm, and tenderness, the "national Danish opera" appellation which *Masquerade* bears internationally seems more than ever limiting. For this is surely one of opera's universal glories.

It is the product of a marvellously clear, well-stocked mind – steeped in opera and at the same time sturdily independent of outlook. The fact that this composer, who spent so much of his professional life in the opera house, was prevented *from writing more than two of* them is one of the sadnesses of our century.

Streams of thought and sound from *Meistersinger* and *Falstaff*, two operas particularly loved by Nielsen, feed it – the former by suggesting ways of preserving a particular place, time and society in music-drama and the latter by showing how music and comedy can flow together with vitality and speed, both by reconciling impatient youth and crabbed middle age during their course.

For these reasons *Masquerade* can be compared with the *operatic comedies of* Wolf-Ferrari, except that Nielsen's music seems to possess an altogether more individual flavour, a quirkier cast of harmonic and melodic thought and rhythmic patterning, a way of keeping the ear continually surprised and delighted at its twists of invention.

Comparable, likewise, is the way the libretto (by Vilhelm Andersen after a famous Holberg play) finds its roots in the Italian *commedia dell'arte* and 18th-century operatic intermezzo, complete with stock types from both: lovelorn *young master, wily servant*, stern father outwitted, plot-devices turning on masks and disguises.

Yet the opera concerns itself with deeper issues, which touch, for instance, on notions of social equality (Nielsen himself praised the servant Henrik, the opera's leading role, for being "quite modern in feeling; after all, he even says socialist things") and human mortality. It is a comedy that, for most of its course, moves at breakneck pace while leaving space for passages of repose.

Among the many excellent features of the staging by *Helena Kaut-Lawson, in the* elegantly economical sets and sensational costumes of Lez Brotherston, is its ability to combine lightness of mobility with a sense of the opera's underlying nostalgic and elegiac currents.

Simply as a piece of lyric theatre in action this show is an abiding delight.

The characters are whirled along with a keen, exact eye and ear – since so much dance music fills the score (expertly choreographed by Karen Rabinowitz), and since Nielsen's theme is that pleasure-taking is morally and socially healthy, *and puritan conservatism the* opposite.

And its enclosing motto-images – the backstage view of the Copenhagen opera house, the regular silent appearance of a boy cornet-player (the young Nielsen himself) – are fixed upon the opera with rare poetic sensitivity.

The cast is already an ensemble, fresh, youthful, musically alert, all that one expects from an Opera North performance. It is led by the rubber-limbed, mercurially intelligent Henrik of Geoffrey Dolton, a young baritone whose every appearance seems to mine new deposits of theatrical and vocal skill.

The young lovers are the soprano Mary Hegarty (pure and poised) and the tenor Paul Nilon (a touch dry-toned but musically ardent); there is a lovely cameo of servile doltishness from Mark Curtis; and from Meriel Dickinson, Paul Wade, and John Hall as the Master of the Masquerade, there are winning contributions.

Elgar Howarth conducts the English Northern Philharmonia. On Saturday they sounded at times unwontedly careless. However the festival is working Opera North's orchestra hard.

In spite of that, the performance went with enormous swing, great gusto, and an acute sense of its light and shade.

*Masquerade* counts as yet another triumph for Opera North.

**Max Loppert**

Magdelone, played by Meriel Dickinson and Mr Leonard (Paul Wade)

## ARTS GUIDE

**June 22-28**

MUSIC, OPERA, AND BALLET

**London**

**Royal Philharmonic Orchestra** conducted by André Previn, with Steven Isserlis (cello). Elgar and Brahms. Royal Festival Hall (Tues) (071-928 8800).
**Royal Philharmonic Orchestra** conducted by *Leon Lovett, with* soloists and the London Oriana Choir. Beethoven's Missa Solemnis. Barbican Hall (Wed) (071-638 8891).
**The Hanover Band and Chorus** conducted by Roy Goodman, with soloists. Beethoven concert including the 9th symphony. Royal Festival Hall (Wed) (071-928 8800).
**James Galway and the Chieftains.** Royal Festival Hall (Thurs) (071-928 8800).

**Paris**

**Orchestre de Paris** conducted by semyon bychkov: stravinsky, mahler (Tue). R. Strauss, dutilleux, beethoven (Thur) chatelet(40282840).
**Ensemble Orchestral de Paris** conducted by Armin Jordan. AudreyMichael (first soprano), Bernarda Fink (second soprano), Vittoria d'ile-de-France choir conducted by Michel Piquemal: Mozart -Mass (Thur). Saint-Denis Basilica, Metro Saint-Denis(42433097).

**Brussels**

**I Fiamminghi Ensemble** conducted by Rudolf Werthen with Herman Prey (baritone). Mozart. Palais des Beaux-Arts (Sat 20.00).
**European Community Orchestra** and chorus conducted by Jean Jakus with Melanie Armistead (soprano), Jan Caals (tenor) Phil*lip Langshaw* (bass) and Jin OK Kim (contralto). Handel's Messiah (Wed). Notre-Dame du Sablon, Rue du Regent (513 83 20).
**BRT Philharmonic Orchestra** conducted by Norbert Nozy with Daniel Blumenthal (piano). Chabrier, Devreese, Pizzini, Rimsky-Korsakov and Van der Roost. Maison de la Radio (Thur).

**Antwerp**

**Royal Flanders Opera Chorus,** the Antwerp Vlaams Muziekconservatorium chorus and the Aalst Cantate Domino children's chorus conducted by Peter Burian with soloists perform Carl Orff's *Carmina Burana*. De Singel (Thur).

**Bad Kissingen**

**The fifth summer festival in Bad** Kissingen (June 22-July 15) is dominated by artists from Hungary, Poland, Czechoslovakia, Russia and East Germany. It made its name with international stars and the wonderful sour*roundings with thermal* waters and glorious concert facilities. The programme is led by three symphonic orchestras, the Czech Philharmonic, Polish National Radio Orchestra and the Bavarian Radio Orchestra. Other highlights include the cellist Natalia Gutmann, pianist Frank Peter Zimmermann, trumpet player *Ludwig Guettler, singers* Hans-Peter Blochwitz, Eva Lind, Olaf Baer, Waltraud Meier and conductor Bruno Weil. Also a performance of Handel's opera *Rinaldo* by the Halle Opera. 8730 Bad Kissingen Postf. 2260; tel 0971/807110.

**Florence**

**Gabriela Benackova (soprano) singing Richard Strauss's Vier letzte Lieder with the Maggio Musicale Orchestra conducted by Zubin Mehta (Wed, Thur).** Teatro Verdi (212320).

**Chicago**

**Ravinia Festival: Harry Connick, Jnr. jazz piano recital (Tue); Herbie Hancock, Pat Metheny, Jack DeJohnette, Dave Holland jazz ensemble (Wed).** Highland Park (728 4642).

**Washington**

**Mostly Mozart Festival Orchestra** conducted by Gerard Schwarz with Jean-Pierre Rampal (flute) and Anne-Marie McDermott (piano). Mozart, Pleyel (Wed); Bach (Thur). Kennedy Center Concert Hall (467 4600).
**National Symphony pops concert** with Mel Torme, Cleo Lane and John Dankworth. Wolf Trap Festival (703 448 0800).

**Tokyo**

**Philharmonische Virtuosen Berlin.** Strauss, Mozart, Respighi, Schoenberg (Mon), Elgar, Britten, Tchaikovsky, Bartok (Tues). Suntory Hall (289 9999).
**Handel, Schubert, Strauss, Donizetti.** Kathleen Battle (soprano), with Phillip Moll (piano). Suntory Hall (Thurs) (289 9999).
**Tokyo and Osaka Symphony Orchestras,** conducted by Kazuyoshi Akiyama. Schoenberg's Gurrelieder. Soloists include Tatiana Troyanos, Ruth Falcon, Gary Bachlund. Bunkamura, Orchard Hall (Thurs) (362 6764).
**Schubert programme.** Takayoshi Wanami (violin), Mineko Tsuchiya (piano). Tokyo Bunka Kaikan, recital hall (Thurs) (289 9999).
**Japanese Classical Music.** Music for transverse flutes. National Theatre, small hall (Thurs) (365 7411).

**London**

**Royal Opera, Covent Garden:** The first production in London for more than a century of Rossini's *Guillaume Tell* is by John Cox, conducted by Michel Plasson, with Gregory Yurisich, Chris Merrit, Lelle Cuberli, and Robert LLoyd in leading roles. The triumphant new production by Bill Bryden of Janacek's *Cunning Little Vixen* is conducted by Simon Rattle, with Thomas Allen, Lillian Watson, Diana Montague, Robert Tear, and Gwynne Howell heading the cast. Latest round of the company's much-revived *La Boheme* production by John Copley; Antonio Pappano (house debut) conducts, and principals include Ilona Tokody, Jerry Hadley, Jonathan Summers, Barseg Tumanyan, and Judith Howarth.

**Brussels**

**Théâtre Royal de la Monnaie.** Richard Strauss's *Der Rosenkavalier performed* by the Monnaie opera and orchestra conducted by Emil Tchakarov, sets by Carlo Tommasi, staged by Gilbert Deflo with Judith Beckmann, Gunter Missenhardt, Lani Poulson.

**Antwerp**

**Koninklijke Opera.** The Royal Flanders opera in Tchaikovsky's *Eugene Onegin* conducted by Rudolf Werthen and staged by Adolf Dresen with Mireille Capelle, Pavel Chernykh and Chris de Moor.

**Berlin**

**Opera.** *Lohengrin,* produced by *Götz Friedrich will have* its premiere this week with a strong cast led by Peter Seiffert in the title role, Eva Johansson (Elsa), Helmut Welker (Telramund), Olivia Stapp (Ortrud), Jan-Hendrik Rootering (Heinrich der Vogler), conducted by Jesus Lopez Cobos, who will be leaving Berlin soon. *La Bohème* returns with its original cast Kallen Esperian, Gwendolyn Bradley, Antonio Ordonez and Andreas Schmidt. *Tosca* stars Pilar Lorengar, Ingvar Wixell, John Sandor and Manfred Roehrl. Also the ballet *Notre-Dame de Paris* and *Rigoletto.*

**New York**

**American Ballet Theatre.** The 50th anniversary season concludes with Sleeping Beauty after an all-Tudor evening. Opera House at Lincoln Center (362 6000).

**Tokyo**

**Kiev Ballet:** Nutcracker (Mon, Tues); Swan Lake (Thurs). Showa Women's University Hitomi Memorial Hall, near Sangenjaya. (780 5400).

**Balinese Dance.** Kecak dancers from the village of Teges perform at the Reiganji Temple (Thurs) (5237 9988).

**Die Lustigen Weiber von Windsor** (Nikolai). Staatstheater am Gartnerplatz, Munich. Tokyo Bunka Kaikan (Thurs) (289 9999).



# The Merchant of Venice

**LUDLOW CASTLE**

This is not my favourite Shakespeare. Apart from Portia and Nerissa and the Duke, the characters are all so second-rate. Bassanio borrows this money from his sugar-daddy Antonio with no intent to repay it, except from his wife's fortune. Lorenzo and Jessica conspire to steal Shy*lock's ducats and jewellery*. Young Gobbo changes sides with no idea of loyalty. Shylock is consistently unsympathetic.

All the same, I enjoyed Michael Napier Brown's production in the handsome but not noticeably Venetian set that *Ray Lett has designed against* the castle walls.

James Ellis's Shylock is a Venetian in disguise, despite the black hair all over his head. His trick of saying Yakob for Jacob will deceive no one. Yet on reflection I think he is one of the more admirable characters. He sticks to his beliefs and he knows the law as well as Portia does. Eric Carte gives a quiet Antonio, a figure from the business pages. He shows a brave face to Shylock with his knife, who keeps him waiting bare-chested for a long time before Portia actually bids him "Tarry a little." Dale Rapley's Bassanio is also fairly meagre with his emotion. These young Venetians are a pretty dislikeable lot – never more so than when they trip up the unhappy Shylock as he leaves the court after the injustice that clever Portia has wrought on him. As for Michael Shaw's shrill, knockabout Lancelot Gobbo, I couldn't be doing with him at all.

Doran Godwin's Portia does not try to represent a young *man too nearly. As a lawyer* she is not all that changed from the rich young woman wooed by the suitors to whom she shows such a racist attitude. When she talks of "the quality of mercy," Portia is saying what she would have said at home as well as in court.

The mortal embarrassment of the boys over the rings was just a joke.

The final night-scene at Belmont has to rely on the words for romance. Jessica (Janine Wood, notably unJewish) and Lorenzo (Hugo-James Ellis) mould them prettily enough, while Ursa Minor made an apt appearance over their heads.

The play in the castle is not all there is to the Ludlow Festival. Others this year include Frankie Howard, Bernard d'Ascoli, Humphrey Lyttelton, Benjamin Luxon, the Syd Lawrence Orchestra and the Ysaye String Quartet, and more besides.

**B.A. Young**

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday June 25 1990

# Japanese cars in the EC

THE European Community's approach to the treatment of Japanese car sales after 1992 is worthy of Saint Augustine. The EC says it wants an open market – eventually. But first, it is intent on erecting fresh barriers which threaten further to compromise the multilateral trade system, distort the single market and flout the spirit if not the letter of EC competition laws.

After bitter wrangling in Brussels, EC governments have authorised the European Commission to negotiate "transitional" restraints on Japanese car sales after 1992. The commission judges such arrangements politically necessary to persuade Britain, France, Italy, Portugal and Spain to eliminate long-standing national import curbs, which are incompatible with its planned single market.

Brussels is well aware that to impose discriminatory quotas on Japanese car imports would be a clear violation of the Gatt. To impose non-discriminatory quotas would be both deeply unpopular – with the Americans, for example – and a violation of the standstill agreement supposedly in effect during the Uruguay Round. For these reasons, it does not aim to enshrine the restraints in a formal agreement. Instead, it is seeking a twilight bilateral deal, whereby Japan would undertake to "monitor" its car sales in Europe, so as to keep them within limits prescribed by the EC. Japan has indicated that it is prepared to contemplate some restraints on exports, though not beyond the end of the century.

### Contentious issue

Exactly how these arrangements might operate has yet to be determined. However, once the EC's internal customs barriers fall, ways would have to be found to prevent leakage of Japanese cars from open markets such as West Germany to protected ones. Current thinking favours reliance on national registration controls or commitments by dealers to sell the cars only in their home markets. Both measures would segment the single market for the EC's most important industry; the second would amount to restraints on trade wholly inconsistent with EC competition rules. The most contentious issue, though, concerns Japanese-owned EC "transplants". The Community wants to include these in the overall restraints by counting their output against total direct imports from Japan. Brussels is resorting to extraordinary verbal contortions to avoid saying so explicitly – for very good reasons. It knows the idea is legal nonsense. The transplants are as European as local factories owned by Peugeot, Fiat or Ford. Furthermore, EC restraints on their output would amount to an officially-sanctioned internal cartel.

### National champions

Britain prides itself on having struck a blow for free trade by establishing unequivocally that cars made by transplants can be sold freely throughout the EC. However, its own national curbs on car imports sit awkwardly with its self-proclaimed liberalism. In reality, Britain's stance is dictated by self-interest. Its chief preoccupation is to protect the UK investments made by Nissan, Toyota and Honda, which it has come to regard as its national champions.

The best that could be said of the proposed restrictions is that they would be intended to last for a limited period, perhaps five years, after which the EC market would be fully liberalised. However, even that is far from certain. Because the arrangements would be negotiated outside the Gatt and have no binding contractual force, there would be no in-built mechanism to compel their termination. The persistence of Britain's limits on Japanese car imports, introduced as a supposedly temporary measure 14 years ago, shows how difficult it can be to dismantle temporary "voluntary" restraints.

So long as the European car industry can look forward to further protection, it will have little incentive to take the decisive measures needed to match Japanese standards of quality, efficiency and management. The further the Community goes to bend or evade international trade rules, the greater the danger that it will persuade the industry that it can cling to protection indefinitely.

# Short-termism of managers

WHITEHALL has woken up to the debate on short-termism. Today the UK Department of Trade and Industry is sponsoring a conference on Innovation and Short-Termism. But the preliminary document on City of London attitudes and practices, produced by a panel called the Innovation Advisory Board, which advises the DTI, raises doubts about whether the debate is likely to probe deeply enough into the British industrial culture.

The IAB's line is simplistic. It produces figures to show that Britain is at the bottom of a league table of growth of industrial research and development spending: indeed, apart from chemicals and pharmaceuticals, R and D spending actually fell in real terms during the late 1980s, partly because of a reduced government input.

This stagnant picture is compared with the buoyancy of profits of leading British companies (up 10 per cent a year in real terms during 1985-88) and the surging growth of dividend payments (16 per cent a year). The company City interface, the IAB concludes, has resulted in too high a priority for short term profits and dividends at the expense of R and D and other innovative investment. The prevalence of takeover bids has also damaged companies' ability to adopt long-term strategies.

But the suggestion that British industry has cut back on R and D because the cash has been diverted to pay dividends to greedy shareholders seems far-fetched. In the late 1980s industry was by no means short of money. It seems more likely that sharper management was casting an increasingly businesslike eye over wasteful spending plans.

### Greater scope

The IAB suggests rather naively that higher R and D spending will lead to more rapid growth, but the causal relationship may well be the other way around: that is, successful businesses see greater scope for innovative investment. The board's report states that in the mid-1960s the UK (along with that other victim of short-termism, the US) were the international leaders in R and D spending. It raises the point because it seeks to show that the rise in institutional shareholding over the past 25 years has introduced short-termist attitudes which were not present when private shareholders dominated. But there is a puzzle here. If heavy spending on innovation is indeed so closely connected with growth, how was it that the British R and D leadership of the 1960s failed to bring any obvious competitive benefits?

The City and its fund managers are an easy target, but short-termism is not confined to the stock market. It is the short-termism of management which needs to be tackled.

### Success stories

It is companies themselves, after all, which very largely dictate the conduct of pension fund managers, perhaps the most short-termist of institutional investors. And this week's sale of Reedpack to a Swedish buyer, following several similar takeovers involving recently demerged companies, gave a reminder of the typical British manager's readiness to surrender independence in order to do a profitable deal.

There are a few British success stories such as ICI and Glaxo, which have obviously found heavy spending on R and D to be vital to their international competitiveness. Other forms of intangible investment, such as in training and in design, are also part of the formula for industrial success – though the IAB confesses it is short of statistics to make its point in these areas. Fundamentally, there must be an ambition to build a business over the long haul, which involves a personal commitment that too few British entrepreneurs and managers (or workers, for that matter) appear willing to give.

The Thatcher Government has, to its credit, fostered a new vitality in many parts of the industrial economy. Yet the long-term framework which would channel that vitality into the patient building of major British companies still seems to be missing. If pension fund managers are really calling the tune, it can only be because they reflect a broader culture.

With no male heirs, Hong Kong magnate Sir Yue-Kong Pao faces special problems in bequeathing his shipping to property empire, writes **John Elliott**

# Passing on the family fortune

The problem faced by Sir Yue-Kong Pao, Hong Kong's 71-year-old billionaire shipowner, is as old as the Bible. How does a man, whether he is an entrepreneur or a geriatric political leader like Sir Y.K.'s friend, Mr Deng Xiaoping, decide on the distribution of the spoils, power, and future control of a lifetime's work? And when does he let go of his empire?

As a Chinese-born tycoon with personal wealth thought to be some $3.5bn, Sir Y.K. has a special problem in planning his retirement. He has no male heirs and lives in a community that is accustomed to family inheritance but is not yet ready for a female takeover.

"Three years ago Sir Y.K. was in Peking and he met Deng and advised him it is better to retire when you are healthy than when you are not healthy. It is good for the person and it is good for the organisation," says Mr Peter Woo, chairman of World International and Wharf Holdings, Sir Y.K.'s main quoted companies.

Mr Woo is one of four sons-in-law from diverse backgrounds – while he is a Chinese banker, there is also an Austrian lawyer, a Japanese architect and a Chinese cancer specialist – who have been taking the helm as managers of Sir Y.K.'s HK$4bn-plus shipping to property empire in the past four years as he gradually retires.

The men are married to Sir Y.K.'s daughters, Annie, Bessie, Cissy and Doreen These four sophisticated and well-educated women will inherit control of the empire through family trusts that also include his wife and 10 grandchildren, now aged 12 to 22. The family is secretive about how it will all work, but it is believed that the sons-in-law are excluded from the family trusts. They will have the managerial responsibility, however, a division of authority which could cause immense problems in the future.

In creating a workable system for when he eventually withdraws, Sir Y.K.'s concern has been to leave in place a structure that would function effectively as a unified family conglomerate.

Based on one of the world's biggest and privately owned shipping fleets, now worth some $1.6bn, the conservatively-run empire has been built up in a classic example of Hong Kong Chinese entrepreneurship by Sir Y.K. since he fled from Shanghai in 1949.

From shipping he branched out in the late 1970s and the 1980s into property and other activities. Following takeovers of old local companies, he has a quoted group headed by World and Wharf which, with their subsidiaries, have a cumulative capitalisation of about HK$26bn and account for about $650m of their total wealth.

Mountains of spare cash are handled by a privately-owned finance house called World-Wide Investment which is thought to control some $1bn of private investments.

But such conservatively-run empires can have their failures, and Sir Y.K., a one-time banker in China, is criticised for tolerating weak and unimaginative management in World and Wharf, and for having failed in two attempts to break into new areas outside shipping, his main expertise.

A personal 10 per cent white knight stake bought by Sir Y.K. in Standard Chartered Bank in 1986 helped Chartered to fend off a Lloyds Bank takeover, but brought the ambitious shipowner neither power not profits. He sold out at a substantial loss last year.

He also recently sold a controlling stake, held privately through a shipping company, in Hong Kong's fledgeling Dragonair airline, which Sir Y.K. failed to turn into an international carrier. He drastically under-estimated the political problems of acquiring an airline's international air traffic rights, and was outmanoeuvred by the London-based Swire family who control Hong Kong's main airline, Cathay Pacific.

Nobody really believes that Sir Y.K. (like Deng) will ever voluntarily retire altogether, and all the sons-in-law acknowledge that he is still very much about.

Because of this, the tycoon's name appeared prominently in reports last month about Lane Crawford, a World International department store subsidiary, moving its domicile to Bermuda and so becoming the first part of the empire to join Hong Kong's corporate migration ahead of the colony's return to Chinese sovereignty.

That did not appear to please the family. "Sir Y.K. has no shareholding equity interest in the World International group and his name should therefore not be linked with the group any longer," said Mr John Hung, World's finance director, in letters to several newspapers. "I would also like to stress that Sir Y.K. is not at all involved in the management and running of any of the companies within our group," he added. Mr Woo went further and said Sir Y.K. now had "no involvement with the family trusts that own World and Wharf".

But this was dismissed as "101 per cent not on" by another important local entrepreneur, reflecting one theory that Sir Y.K. wanted to be distanced from the Bermuda move because of his close relationship with China's leaders.

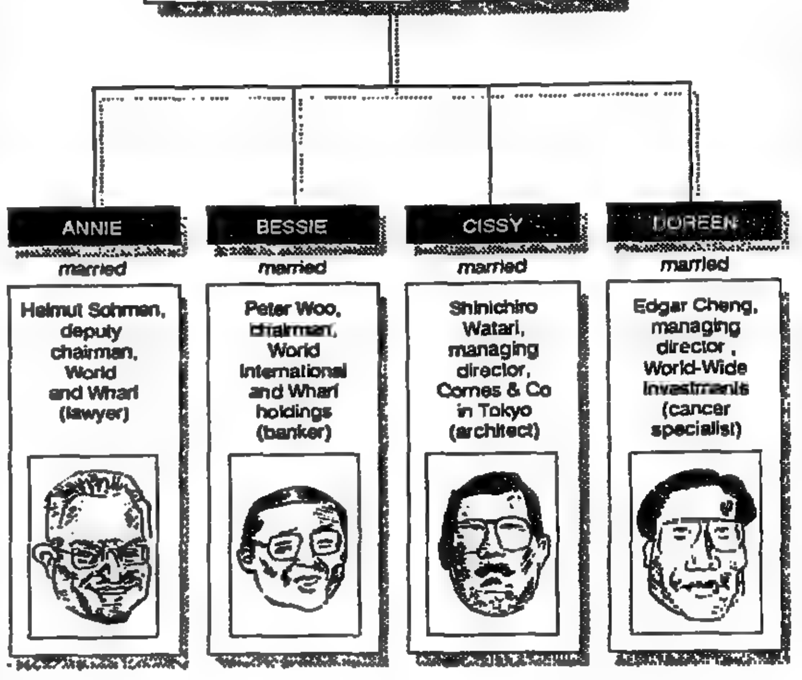
He was a member of the Peking-appointed committee that drafted Hong Kong's post-1997 mini-constitution, the Basic Law. Like most top Hong Kong businessmen, he is anxious to maintain good relations with Hong Kong's future rulers to assist his companies' activities after the sovereignty handover. He has few business investments in China, but has endowed a university and other projects in his home town of Ningpo near Shanghai.

Against this political background it seems inconceivable that Lane Crawford's domicile could have been moved against his wishes – and Mr Woo acknowledges that he still discusses business with his father-in-law, if only out of respect.

For some time there have been rumours that Sir Y.K. has a terminal illness. But with all the charm that goes with his ruthless, pugnacious and sometimes explosive character, he delights in joking about his health, his passion for exercise, and retirement. "You see I am getting younger every day," he says when talking during an occasional appearance at a reception. "I have more time to play golf. My sons-in-law are running the businesses. I just play golf and swim." Non-family executives now rarely meet Sir Y.K., but he has still been a central patriarchal hub around which everything has revolved.

In designing the inheritance, Sir Y.K.'s aim has been to create a structure that has a good chance of working as a unified family conglomerate. So he designed four interlinked but separate parts that could survive on their own if the family followed the course of many second or third generation dynasties and splintered.

Sir Y.K. Pao




First he recruited the sons-in-law into the family empire, which he then carved up into four separate businesses for each to run. Next he actively involved the wives – most of whom hold directorships in their husbands' boards.

Finally, it is believed that the transformation will be completed when he dies. Each of the four parts are, according to insiders, expected to be allocated broadly comparable slices of the total empire, taking into account control of their basic businesses, liquid cash, and cross holdings (now being reshuffled) which will not be large enough to challenge a primary heir's control.

The daunting task of holding the corporate family together will then pass to the four daughters, who are said to get on well together. They will have a tough job because there is bound to be friction among the sons-in-law, some of whom are known more for their stubborn determination to succeed than for their equanimity.

● Dr Sohmen, aged 50, is the eldest and is an outspoken lawyer. His wife, Annie, is an accomplished musician and the most publicly active of the daughters. He runs about 80 ships totalling 11.5m dwt, mostly registered outside Hong Kong.

Apart from two smallish joint ventures with China and the Hongkong and Shanghai Bank, they are owned through private off-shore companies and are managed by World-Wide Shipping Agency, domiciled in Bermuda since 1974. Mrs Sohmen sits on this company's board and also attends daily management meetings.

● Mr Woo, 45, is from a Shanghai architect's family and was originally a banker with Chase Manhattan. He joined Sir Y.K. in the 1970s, first in shipping and later in the quoted companies which are controlled through 64.9 per cent family trust holdings in World International.

He is married to Bessie who, like her sisters, met her husband at a US university. Mr Woo has a reputation as a ruthless businessman, and he is proud that the companies are highly liquid – "hardly geared" he says.

Recently he had to step down as chairman of Hong Kong's new cable television consortium, in which Wharf is the largest shareholder, because he tried to throw his own and his companies' weight around too much. Cable television is a diversification from core businesses of property, hotels, stores, and franchised infrastructure operations such as cross-harbour ferries Generally the companies are regarded as untidily structured and unadventurous.

Only about 15 per cent of the assets are outside Hong Kong and Mr Woo says he would like to expand this before 1997. He has in the past two years expanded into Singapore property and into North America by purchasing 100 hotels, now grouped in the Omni International chain.

There is a suspicion that the Lane Crawford department store subsidiary may have been chosen as the first company to move to Bermuda because its stock is dominated by a special category of B shares. These shares only cost a fraction of normal shares full market price, but carry full voting rights. Bankers say that this could give the family a relatively cheap way of raising cash and shifting control out of Hong Kong some time in the future through a Lane Crawford reverse takeover of World International.

● Mr Edgar Cheng, 46-year-old son of a Hong Kong garment manufacturer, is married to Doreen, a graphic designer. A quiet unassuming man, he was a top cancer specialist in the US and, till he joined the company two years ago, was certainly the hardest of the four sons-in-law for Sir Y.K. to catch. Mr Cheng says he had reached a peak in his medical research career, welcomed a new challenge, and wanted to return to Asia to bring up his children, aged 10 and 13.

He is now managing director of World-Wide Investments, working on funds and investments estimated at $1bn, with a professional staff of about 20 under the executive chairmanship of Mr C.C. Huang, Sir Y.K.'s brother-in-law.

"The concept is not difficult – after a year I had a feeling for money in terms of funding and investing," he says. "Most of it is very conservative management. The aim is to preserve the excess cash and we do not go for risks."

● Mr Shinichiro Watari, a 43-year Japanese architect and probably the most relaxed and extrovert of the four, is married to Cissy, a professional painter.

He joined Sir Y.K.'s New York office in 1977 and now heads Cornes and Co in Tokyo with sales of £100m a year, including the local Rolls-Royce car franchise. For geographical reasons, he is the most independent and says he might expand his side of the empire to the US later. "Sir Y.K. may give you strong advice but it is up to you to make the decisions," he says.

Now as Sir Y.K. draws back, the family sections are learning to live separately, but together, with no single leader. That seems to suggest several years of uninspiring, slow growth in safe areas, rather than the visionary expansion which could happen if they were co-ordinated by one entrepreneur.

"Yes, we are conservative. We are not traders, but long-term investors," says Mr Woo, proudly explaining the philosophy of using internal cash and avoiding heavy debts. "That means we can stand on our own feet in Hong Kong, come hell or high water."

# OBSERVER

## Smith needs a fringe

■ An awful lot of economists, politicians and businessmen are going to Edinburgh this week for a conference on The Wealth of Nations 1990, timed to commemorate the 200th anniversary of the death of Adam Smith.

Douglas Hurd, the British Foreign Secretary, will be speaking, along with his Italian counterpart, Giannni de Michelis. So will James Schlesinger, a former US Defence Secretary, Helmut Schmidt, the former West German Chancellor, Raymond Barre, a former French Prime Minister, and so on: the list is longer than your arm, without mentioning Denis Healey and Lord Young.

The keynote address will come from John Gutfreund, chairman of Salomon Brothers, which is one of the sponsors. The hope is that conference, organised by World Business Forum, will become an annual event. And why not? The main shareholder in World Business Forum is Scottish Financial Enterprise, which brings together the main financial interests in Scotland.

Yet for a conference held in Edinburgh, there seems to be something missing. There is no fringe. As anyone who visits the real Edinburgh Festival knows, the fringe is sometimes considerably more interesting than the main events.

We spoke to the organisers some weeks ago about this omission, and they agreed that we had a point. The problem is that it is thought to be potentially embarrassing to invite someone as a fringe speaker. It implies a slur on their standing as an economist.

We disagree. Sir Alan Walters, for example, would be an excellent fringe man. So would Nicholas Ridley, the Trade and Industry Secretary, who is showing a renewed interest in monetary policy. They would probably agree to come and offer an alternative show.

We also hope that the Scottish National Party will set up a stall of its own. For there is point in holding an Adam Smith conference in Scotland that pretends that Scottish nationalism does not exist. The trouble with Edinburgh is that it can be a dreadfully earnest place. It needs more than the great and the good to stir it up.

## Summit fare

■ Competition has crept into the presents given to journalists attending the meetings of the European Council. Under the French Presidency in Strasbourg in December, they received some Alsace wine, music by Bach and a peculiar paper-weight that consistently set off the buzzers at the security check points.

In Dublin today, the Irish are dishing out packs containing a side of smoked salmon, a bottle of Irish whiskey (an industry now controlled by the French Pernod group), a book of Irish photographs and a compact disc ranging from traditional Dublin singers to the ultra-modern U2.

The next meeting of the Council will take place in Italy, where perhaps Luciano Pavarotti will do for the European Community what he has already done for the World Cup.

## No FT! No...

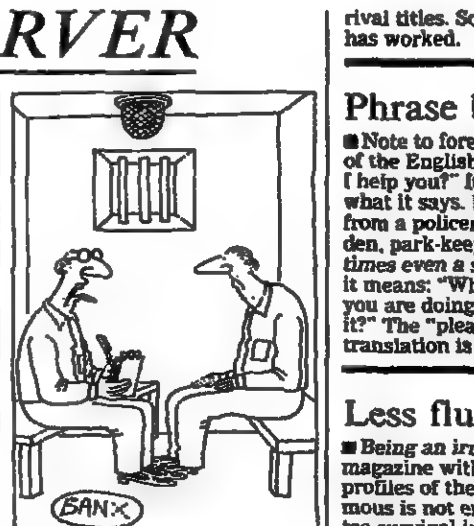
■ Readers in Warsaw might wonder why they are unable, at present, to purchase their FTs at news kiosks in such major hotels as the Marriott, the Holiday Inn and the Victoria Intercontinental. Instead, they have to make do with products such as the International Herald Tribune and the Wall Street Journal.

The explanation says much about the difficult transition to the market economy in a long monopolised economy. Unlike virtually all other foreign newspapers, the FT has its own distribution system in Poland. Most other western newspapers are imported by a single monopoly private agent, who believes in charging what the (foreign) traffic will bear.

The result, a uniform price of Zly15,000 a copy ($1.60) on all his titles, certainly soaks the rich. Unfortunately, it also puts foreign newspapers out of the reach of Polish readers.

Into this happy cornershop of monopoly capitalism blundered the FT bull, with a revolutionary notion: price competition. The FT has decided upon a price of Zly9,000 and has gone so far as to print it on the cover of the international edition.

That was the start of cut-throat competition in a hitherto quiet area of Polish monopoly capitalism. But it is the FT's throat that has been cut. The competitor informed the owners of the kiosks that, with the FT on sale at this price, he would withdraw the rival titles. So far his threat has worked.




"I'm in here for invasion of privacy – how about you?"

## Phrase book

■ Note to foreigners: beware of the English phrase "Can I help you?" It does not mean what it says. Especially coming from a policeman, traffic warden, park-keeper and sometimes even a shop assistant, it means: "What do you think you are doing and please stop it?" The "please" bit of the translation is optional.

## Less fluff

■ Being an irreverent business magazine with a penchant for profiles of the rich and infamous is not enough to guarantee survival in New York. Last week Manhattan, inc. the prodigal child of US business publications, tacitly conceded defeat after several years of losses.

Manhattan, inc. blames its woes on Black Monday in 1987, when Wall Street crashed and business advertising slumped. The number of advertising pages in the magazine fell 28 per cent from a peak of 912 in 1986.

Instead of dying outright, Manhattan, inc. which publishes its last issue in July, is joining the growing stable of men's papers by merging with M magazine, a male fashion and life-style monthly published by Fairchild. The theory is that affluent men now want less fluff and more serious reporting.

M inc has a projected circulation of 300,000, and is due to appear in September, competing with the well-established Esquire and GQ magazines. But the market is expanding rapidly: three new men's magazines are planned for the end of this year.

## Jewish joke

■ What did Noah say when God told him he should build the Ark? "Now I herd everything."

# Educational castles in the air

## The Government's City Technology Colleges have had a mixed reception, writes Norma Cohen

Four years after they were launched, fewer than a quarter of the 20 planned City Technology Colleges are in operation. The colleges, a central element in the Government's education reforms, remain a subject of controversy in political, education and industry circles.

"The hostility to City Technology Colleges is really based on the hidden agenda," said Sir Cyril Taylor, the Government's chief adviser on its controversial project to establish a new type of British secondary school. "The education establishment knows that what we are challenging is the egalitarian approach of the comprehensive system. Broadly speaking, comprehensives have not worked."

Rarely have the goals of the Government's most contentious education reform been stated so baldly. Certainly, the selectivity of CTCs and their close links with industry are anathema to proponents of comprehensives. Almost from the moment the project was announced by the former Education Secretary, Mr Kenneth Baker, in 1986, critics campaigned for it to be abandoned.

Most of the criticism has focused on the Government's generous funding of CTCs at a time when secondary schools around the country are starved of cash. Even with a plethora of public and private initiatives to bring the world of work into schools, the Government still spent £19.7m on CTCs in 1989 and has committed an additional £106.2m over the next three years to set up 20 colleges. Each has required initial capital from the Government of £8m to £8m. But far from Mr Baker's initial goal of having industrial sponsors pay "all or a substantial part" of their cost, industry is now expected to provide a mere 20 per cent of each CTC's capital cost.

And even that has been slow going. Far from having them all in operation by 1990, only three CTCs were up and running by the start of the year. Another four should open their doors in September, while five more are in advanced planning stages.

Officially, the Department of Education and Science says it has no intention of abandoning its goal of 20 independent CTCs funded in conjunction with industry. To do so would be tantamount to admitting that the programme has failed to attract the support from industry that the Government had anticipated.

For all their goals of improving the qualifications of young people for the workforce, CTCs have only attracted a lukewarm response from industry.

The CTC Trust insists that corporate support has been strong, saying that 176 companies have pledged more than £43m for a general fund to be divided between the colleges. But British and Commonwealth, for instance, had pledged a donation of £700,000, a sum not now likely to be received in full since the company has been put in the hands of administrators.

Among the drawbacks for industry has been the required £1m for a lead sponsor's role in a CTC. Six of 13 proposed colleges are sponsored by charitable organisations rather than corporations and two have had to be abandoned for lack of private contributions.

W.H. Smith, the retail and wholesale group, for instance, sought to establish a CTC in Swindon, earmarking a donation of some £500,000. But Mr Julian Smith, director of external affairs, said the company failed to attract one or two other big donors needed for the project, which has been abandoned, and will now divert the funds to another educational project elsewhere. "Lots of large companies already have extensive education programmes and they didn't want to concentrate resources in a single area," Mr Smith said. W.H. Smith has separately provided a smaller donation to a CTC in Nottingham.

"We didn't think it met our objectives for educational giving," said an official at one UK clearing bank which resisted government requests for a donation. He said his bank believes that making a big donation to a single – and controversial institution – was not the most effective form of giving.

The hostility with which CTCs are viewed by local government has also deterred corporate donors. A spokesman for ICI – one of Britain's largest corporate donors to education – said the company has excellent relationships with LEAs and a wide variety of projects under way. Sponsoring a CTC could undermine its existing education and community relations programmes.

On the education front, even some of those who support the concept of CTCs argue that their curriculum is not radical enough. They are intended to provide inner-city children of average or sub-average ability with a broad technological education that will not only train them for jobs but will encourage them to stay on in school, obtaining vital skills in literacy, numeracy and communication. Students typically have a longer school day, and spend more time studying maths, science and technology that those at conventional schools.

CTCs also offer a technologically enriched environment, offering, for instance, a ratio of one computer to every four or five students instead of the ratio of one to 25 in the comprehensive sector.

The colleges have proved popular with parents. Mrs Valerie Bragg, principal of the Kingshurst CTC in Birmingham, said she had 750 applications for just 180 places in the class entering this September.

One reason is that the close association with individual industrial sponsors enables CTCs to develop more sophisticated work study programmes for students. Mr Matt Andrews, principal of the Djanogly CTC in Nottingham, said he has arranged work-study placements for his students abroad, including several slots in Singapore.

Britain's failure to transmit appropriate workplace skills and attitudes to its young workers is cause for soul-searching in government, industry and education alike. About 80 per cent of British children leave school at 16, compared with 10 per cent of their German and American counterparts. And while 80 per cent of German school leavers take a job which offers apprenticeship training, fewer than 30 per cent of their UK counterparts do so.

But whether CTCs are a radical innovation that will set Britain on the path to a more highly qualified workforce remains to be seen.

Professor Sig Prais, senior research fellow at the National Institute for Economic and Social Affairs and an early proponent of CTCs, argues that they are little more than a better-equipped version of what goes on in state schools. He says CTCs should follow the model of French and German vocational schools in which students spend the morning in the classroom and the afternoon in workshops learning specific skills.

And while he acknowledges that CTCs have been successful in encouraging achievement, he points out that their screening process allows them to pick the most highly motivated students. Teachers are also hand-picked for their commitment. "If you had enthusiastic people at every school, marvels would follow," said Professor Prais.

One contentious aspect of CTCs is that they are completely independent of local education authorities which have espoused the comprehensive ideal. "I'm sure that part of the purpose of the Government is to remove the influence of local government from schools," said Professor David Regan, professor of local government at Nottingham University. "Government has taken the view that the local government monopoly on education should be restrained." He said this had caused fury in local government, which has jealously guarded its control over education policy.

Supporters of CTCs, meanwhile, dismiss the charges that the colleges will absorb a disproportionate amount of capital investment in schools, and argue that they serve as "beacons of excellence" with their innovative curricula.

In view of the controversy over funding Sir Cyril believes the Government should consider abandoning its target of 20 "orthodox" CTCs. Its new tactic would be to embrace local education authorities, establishing new schools in partnership with them, instead of trying to cut them out altogether. While that approach flies in the face of Mr Baker's early education reforms – it is significantly cheaper. The Government's contribution to a proposed CTC run co-operatively with the Conservative-led London borough of Wandsworth would be a mere £500,000.

"If we knew then what we knew now, we might have started this way," said Sir Cyril of the co-operative approach.


*LOMBARD*

# A teenager's guide to improved UK trade

### By Samuel Brittan

A little of the fog is now beginning to lift from the trends in UK trade. The UK payments deficit was originally reported to be £20.9bn in 1989 and appeared to be running at an even higher level in 1990. Nevertless business surveys suggested that exports were the one sector doing well. I am glad to report that the statistics have now caught up with the more impressionistic evidence.

For with the publication of the May trade figures, the officially estimated payments deficit so far this year has been revised downwards; and the Treasury's Budget forecast of £15bn for 1990 as a whole now looks once more attainable.

The biggest event between the April and May trade figures was not anything which happened in the economy, but the revision by the CSO of its estimate for invisibles in 1989, which carried forward into the first quarter of the 1990s and into its projection for the most recent months.

The widely trumpeted "first ever" invisible deficit for the last quarter of 1989 has now been transformed into a small surplus; and the current deficit for last year for the balance of payments as a whole has now been revised down to £19.1bn.

What has been the picture in 1990? There is no mechanical formula for extracting a true picture from fluctuating underlying monthly data, as has been brought home to me while doing these teenagers' guides. But the year is now well enough advanced to express the sum of the monthly balances at an annual rate, as a first shot.

During the first four months of 1990, the current deficit appeared to be running at £21.8bn, even higher than in 1989. After the May trade figures the estimate for the first five months of 1990 has come down to £18.4bn.

Of this improvement, some £0.7bn reflects the influence of May exports and imports, the only reasonably hard new data available. The remaining £2.7bn reflects, however, revisions of the CSO's estimates for invisibles.

There is one other factor making for improvement. For international and historical comparisons it is usual to express trade imbalances as a proportion of GDP. This is necessary to allow both for real growth and inflation. Thus even if the 1989 deficit had merely stabilised in money terms, it would still have been on a shrinking path owing to the growth of the national income in money terms.

This has been one of the main forces tending to reduce the importance of the US current deficit, and I have always suspected that the UK would have to rely on some such property of declining proportions as well.

The combined effect of a growing GDP, statistical revisions and a genuine improvement in trade trends has been to reduce the current deficit from 4.1 per cent of GDP, which was grist to the mill of the alarmists, to 3.4 per cent. It could be down to 3 per cent before long, at which it would be well in line with what other countries with sound fiscal positions have been able to finance without too much trouble.

It is moreover now clear that exports have been rising not only reasonably quickly, but also steadily for two or three years, and that the source of variation has been in imports. The latter are of course very sensitive to domestic demand and activity.

The import pick-up since the second half of 1989 has been in line with other evidence that there has been at least a temporary revival in the domestic economy. Retail sales volume and real GDP are, for instance, both rising faster than most forecasters expected and aggregate profits are refusing to show much signs of squeeze. Moreover, underlying inflation continues to creep upwards.

On the other side, car sales, housing and property remain depressed. There are many reports of bad debts; banks are taking a more careful look at their loan portfolios, and the general feel of domestic business is much gloomier than the statistics. The best evidence that the growth recession will resume now comes from broad money and credit growth, at last slowing down, even while the Treasury's beloved M0 continues to mislend.

Nevertheless the policy tightening from the rise in sterling on ERM entry hopes did not come a day too early, even though the UK Treasury is far too innocent to work by rumour and leak. It is still necessary to keep interest rates as high as possible for as long as possible, even if it means intervening in foreign exchange markets later in the year to keep sterling from overshooting upwards. We have indeed been here before.

**UK BALANCE OF PAYMENTS**
**£bn at annual rates**

| | Visibles | Invisibles | Total | % of GDP |
|---|---|---|---|---|
| 1989 Previous estimate | -23.1 | +2.2 | -20.9 | -4.1 |
| 1989 Revised | -23.1 | +4.0 | -19.1 | -3.7 |
| 1990 First four months previous estimate | -21.8 | 0 | -21.8 | -4.1 |
| 1990 First four months revised | -21.8 | +2.6 | -19.2 | -3.6 |
| 1990 First five months | -21.1 | +2.7 | -18.4 | -3.4 |

Source: CSO

**UK TRADE VOLUMES**
**% changes**
**(exc oil and erratics)**

| | Exports | Imports |
|---|---|---|
| **1987** | | |
| First half | +4.1 | +1.5 |
| Second half | +2.2 | +9.5 |
| **1988** | | |
| First half | +0.9 | +4.4 |
| Second half | +4.0 | +8.9 |
| **1989** | | |
| First half | +5.2 | +4.3 |
| Second half | +4.9 | -0.4 |
| **1990** | | |
| First half * | -4.8 | +2.6 |

* First five months at half-yearly rate. CSO

# *LETTERS*

## Instruments in the band

*From Professor David Currie.*

Sir, Professor Francesco Giavazzi (Letters, June 20) is right to remind us that entry to the Exchange Rate Mechanism (ERM) involves entry to a European Monetary System (EMS) in rapid evolution to a harder form, as a prelude to a subsequent move towards European Monetary Union (EMU).

He is also right to emphasise the role of the ERM in providing an effective anchor for inflation.

But he is wrong to suggest that this is inconsistent with UK entry to the ERM with wide bands, in order to handle the transitional problems resulting from entry.

It is true that entry to the ERM at the middle or top of a wide band does not provide the monetary discipline required now to curb UK inflation. But entry at the bottom end of a wide band at the current rate against the D-Mark, or somewhat higher, gives a firm floor for sterling, providing a clear anti-inflationary stance for policy.

At the same time, it leaves the one-sided option of responding to an increase in confidence in sterling by allowing sterling to appreciate rather than cutting interest rates. Since an early fall in UK interest rates is not appropriate, the alternative to entry with wide bands is a further delay of UK entry – which would put off still further the creation of an effective anti-inflationary anchor for the UK.

Entry with a wide band should be followed relatively soon by a move to a narrow band, signalling the UK's commitment to a "hard" EMS arrangement. But it would be a mistake not to use the option of a wide band, as Spain and Italy have done (in those cases, in addition to capital controls) to ease the problems of transition. Not to do so is to risk a premature cut in interest rates, or delaying yet again UK entry to the ERM.

David Currie,
*Centre for Economic Forecasting,*
*London Business School,*
*Sussex Place,*
*Regent's Park, NW1*

## Taking the UK temperature

*From Mr Robert Worcester.*

Sir, The usually astute Joe Rogaly (June 15), reviewing the opinion polls for the last few weeks, confuses himself and misleads his readers by focusing on the gap between the parties rather than each party's share of support.

Out of the 16 opinion polls that have appeared since the beginning of April this year, nine out of the first nine (all in April) had the Conservative party at 30 per cent, plus or minus 2 per cent. All save one (Gallup) had Labour at 54 per cent, plus or minus 2 per cent.

*In the seven taken since the* local government elections, six out of seven put the Conservatives at 34 per cent, plus or minus 2 per cent, and five out of seven put Labour at 50 per cent, plus or minus 2 per cent. A very consistent show.

This indicates that the Conservatives have gained some four points at Labour's expense since the elections.

Like thermometers, opinion polls measure the political temperature of the nation. They may fluctuate a bit, but when you read them properly they measure the public mood and are an excellent guide to the state of the political climate.

Robert Worcester,
*Mori,*
*32 Old Queen Street SW1*

## Continued threat to the ozone layer

*From Miss Tracy Heslop.*

Sir, For years, ICI has argued against the connection between chlorofluorocarbons (CFCs) and ozone layer depletion: as the producer of four-fifths of the UK's ozone-destroying chemicals, it has been in its corporate interest to defend its production of CFCs, halons, methylchloroform and carbon tetrachloride.

In January 1987 ICI stated that a stabilisation of CFCs would be sufficient to prevent further damage. In 1990 it wrote: "The effect of CFCs on the ozone layer is by no means easy to understand, nor is the connection entirely proven."

Now that these chemicals have been identified as environmentally unacceptable, ICI is trying to have its cake and eat it. The "alternatives" to CFCs that ICI and its chemical colleagues are promising are very destructive greenhouse gases: HFC 134a, ICI's current favourite, is 3,000 times more powerful as a greenhouse gas than carbon dioxide.

According to the UN Intergovernmental Panel on Climate Change, these "alternatives" will produce up to 10 per cent of global warming in the next century. It is disingenuous and factually wrong to claim in ICI current advertising that the "alternatives" will contribute less than 1 per cent.

Tracy Heslop,
*Greenpeace,*
*30-31 Islington Green, N1*

## 'Sanctions pose a problem for the ANC'

*From Ms Merle Lipton.*

Sir, Much of the capital outflow from South Africa since 1984 is because of the heavy debt repayments that SA – like many other countries – has been forced to make to its creditor banks, and adverse political risk assessments because of widespread internal unrest and uncertainty over long-term political stability.

Sanctions (both the formal measures imposed by governments and the unofficial pressures of the lobbies) have also played a role. But it is a matter of intense dispute how much of the capital outflow since 1984 can be attributed to sanctions *per se*. What is clear is that one cannot simply attribute the whole of the Rand 30bn capital outflow to sanctions.

Second, it is not just European Community-SA trade that has increased during the past couple of years. US-SA trade increased by 23 per cent in 1988, when the South African economy grew faster. According to provisional trade data, US-SA trade was almost static in 1989, when growth in SA slowed.

*Curiously, the provisional* data (measured in US dollars) suggests a similar trend in UK-SA trade, that is, a spurt in growth during 1988 and stagnation in 1989. Hence, there appear to have been similar trends in UK and US trade with SA – despite the different official policy stances of the two countries on *sanctions*.

Sanctions do provide some bargaining leverage for the African National Council. But the key factor in the ANC's bargaining power must surely be its capacity for internal political mobilisation and organisation. Here sanctions *pose problems for the ANC, as* well as for President de Klerk. Insofar as sanctions adversely affect the SA economy by constraining the growth rate, they feed the economic discontent not only of the white right, but also of the unemployed township youth. The militancy of both these groups could serve as an obstacle to the negotiated settlement favoured by both Mr Mandela and President de Klerk.

So far as sanctions send political signals, they conflict with de Klerk's need to show whites that his policies deliver results. However, sanctions are a morale booster for blacks, signalling continuing international support for the anti-apartheid struggle. But as apartheid is removed, the expectation is growing internationally that the ANC (and other black political organisations) will amend some of their tactics – such as reliance on the armed struggle and on sanctions – and that they (like de Klerk) will grapple with the *difficult political task of educating* their constituency to the changing political realities and possibilities.

The need of the international community to balance the sometimes conflicting requirements of the black and white political constituencies is a *tactical* question, not a question of adopting a "middle of the road" moral position on apartheid. The political requirements suggest a policy stance which avoids the premature removal of all sanctions, while responding positively to progress in ending apartheid and in facilitating democratic political activity and negotiations.

One way of sending these seemingly conflicting signals is for various countries to play different roles. Thus the fact that the US is, for domestic reasons, unlikely to respond to President de Klerk's bold and electorally risky moves, strengthens the case for a positive response from the EC.

This response could be *accompanied by an undertaking* that such measures would be reimposed if there were a reversion to apartheid.

Merle Lipton,
*15 Eaton Place,*
*Brighton, East Sussex*

FINANCIAL TIMES
Monday June 25 1990



SOVIET UNION FACES NEW CHALLENGE

# Border spirit fires Moldavia's defiance

**By Quentin Peel** *in Leusheny, on the Soviet-Romanian border*

THOUSANDS of Moldavians and Romanians converged on the Soviet border yesterday for a symbolic linking of hands across the frontier, to denounce the Soviet annexation of the Moldavian Republic 50 years ago and proclaim their "spiritual unity."

The demonstration, coinciding with a day of national mourning, came one day after Moldavia became the latest Soviet republic to pass a declaration of sovereignty, insisting on the precedence of its laws and constitution over legislation passed in Moscow.

A stormy debate in the republican parliament, now dominated by followers of the Moldavian Popular Front, saw a large majority approving the latest acts of defiance against the united Soviet state, after Russian deputies had walked out.

The little republic, almost two-thirds of whose 4.2m-strong population is Moldavian, speaking the same language as neighbouring Romania, is deeply divided over its future, whether inside or outside the Soviet Union.

Relations between Moldavians and non-Moldavians have deteriorated rapidly in recent months as demands for outright independence have suddenly burst into the open. Yet, the Moldavians themselves are torn over their future relations with an impoverished and unstable Romania, and are unwilling to commit themselves to outright reunification.

Yesterday's demonstration fell far short of the hundreds of thousands needed to form a human chain from the historic monastery of Capriana, in Moldavia, to Putna, the burial-place of the medieval King Stefan the Great, in Romania.

At the frontier itself, however, Soviet border guards stood aside to let the singing demonstrators join hands across the red line which runs the width of the Pruth river bridge, and then allowed a surge of Romanians to break into the Soviet Union to fill their empty shopping-bags at impromptu market stalls. The Romanians looked poorer and scruffier than their Soviet counterparts.

There was confusion over the demonstration up to the last minute, when the Moldavian Popular Front declared that it was not calling for a full opening of the border, as a mark of its disapproval of President Ion Iliescu's treatment of the opposition within Romania.

"Now we are just for spiritual unity," Mr Ion Khadirke, the chairman of the Moldavian Popular Front and vice-president of the Moldavian Supreme Soviet, said. "We are for an independent country of Moldava [as parliament recently renamed the republic]. We want to open the border, and make contacts between the two countries simpler. In the long-term, of course, we support the creation of a common European home."

Yet, ordinary demonstrators clearly saw the event as a manifestation of national unity, chanting slogans of "One nation" and "United, we cannot be conquered," when unarmed Soviet troops moved in to separate the crowd.

Mr Khadirke addressed the demonstrators on the bridge, describing the Moldavian declaration of sovereignty as "an historic step," asserting Moldavian control over its land and natural resources, and a separate Moldavian citizenship, as well as the supremacy of its constitution.

Moldavia follows the three Baltic Republics, as well as Georgia, Uzbekistan and the giant Russian Federation itself, in proclaiming its sovereignty from Moscow.

Yet, all view their relations with the future Soviet state in different ways, by no means united in seeking outright independence.

Mr Khadirke said yesterday that President Mikhail Gorbachev's proposal to recreate the Soviet Union as a confederation, as a "union of independent states... is nearer to what we want."

However, he added that neither a formal federation nor confederation was acceptable to his organisation.

The past week has seen the newly-elected Moldavian Parliament pass laws on a new national flag, with the same red, yellow and blue colours as that of Romania, and the establishment of its own internal security service, to replace the Soviet KGB.

The republican government has been replaced by an overtly nationalist government, and the Communist Party has lost virtually all of its popular influence over the people.

All the secessionist moves have aggravated relations with the non-Moldavian minority, creating an increasingly bitter divide between the communities.

Russian party confronts Gorbachev with tough choice, Page 4

Soviet Moldavians and Romanians mingle on a border bridge north of Bucharest after pushing past Russian guards

THE LEX COLUMN

# The addictive power of dividends

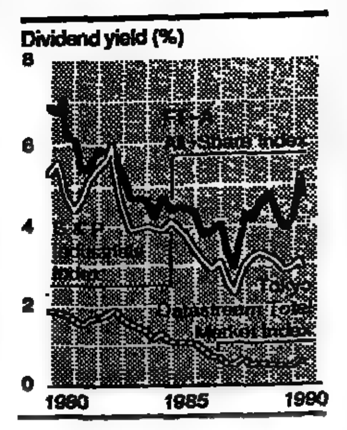
The urge to blame the performance of British industry on its financial structure is plainly not going to go away. A recent DTI report returned to the topic by asserting that the high level of dividends paid by British companies is forced on them by their shareholders; and that the necessity to maintain a high payout is the cause of under-investment. Now, Colin Mayer and Ian Alexander of the City University Business School have set the argument in perspective through comparison between British and West German corporate finances.

There is markedly little difference between the two countries in terms of financing small and medium-sized companies, despite the popular perception of German corporate finances as being uniquely bank-dominated. However, large UK companies tend to raise more external finance than their German counterparts. This is not because of any difference in investment: both spend some three quarters of profits on fixed assets. But because British companies pay more of the remainder to shareholders, they have greater need of outside funds.

This craving to hand out cash seems all the odder in an era of positive institutional cash flow. If the dominant shareholders have cash coming out of their ears, it is not obvious why they would want more immediately. The figures on investment also seem to disprove another obvious contention, that British managers simply cannot think of profitable projects to spend on. Nor is it clear that the difference is a matter of taxation. The German tax regime tends to penalise retentions and encourage companies to use external sources of finance to fund investment.

To an extent, dividend payments derive their importance from their function in signalling the outlook for earnings. But arguably this ought to be less important in the information-rich and over-analysed British stock market than in West Germany. More significant is the message sent to investors by failure to maintain a dividend, or even to match the going rate of dividend increase. As a sign of financial distress, it might be compared to a home owner falling behind on mortgage payments.

A change in dividend policy may well be the spur for institutional action which forces a change in management or prompts a bidder to seduce an unhappy group of shareholders. It is this fear of losing control of the company, it seems, which forces managers to keep the dividend payments coming. But the level of payment is relative rather than absolute. It is the starting point which is too high – the product partly of historic inflation, partly of corporate machismo. What is needed is a period of voluntary dividend restraint, on the part of both companies and shareholders. The snag is that, as with wage settlements, this is not the British way.




## European insurance

At last, the speech-making about 1992 in European insurance is drawing to an end and the participants are getting down to business. To be sure, nobody expects a torrent of cross-border trade this July when it becomes legal to buy and sell large industrial risk policies between EC countries. But it is a good omen for two reasons that some of the largest syndicates at Lloyd's last week announced a 50/50 joint venture with Sun Alliance to market in Europe all-risks policies for commercial clients, to cover claims up to a limit of 200m Ecu (£145m).

Not only is it a reminder of the London insurance market's old readiness for collective action to provide innovative products. The best previous example, perhaps, was the London Master Drilling Rig Contract, which the market assembled in the 1960s and 1970s to serve the offshore oil and gas industry. The Lloyd's/Sun Alliance venture suggests that the pioneering spirit is still there. Equally heartening is the fact that Lloyd's and the composite insurers are working together; this is something that would not have happened so easily five years ago.

As regards Sun Alliance, with a solvency margin (shareholders' funds as a percentage of premiums) of more than 100 per cent, it may be surprising at first sight that it needs to pool resources with Lloyd's. The reality is that even the largest European insurers need help from reinsurers when taking on big individual risks. But by working with Lloyd's, Sun Alliance gets the benefit of the speed with which the Lloyd's syndicate system can spread risk when it needs to.

## French shares

The emperors are starting to lose their clothes. One of the most familiar corporate finance stories of the last 18 months has been the eagerness with which leading French industrial companies have dashed into large acquisitions overseas. The consequences for their own shares are now looking decidedly dire. Take Michelin, which in the past year has made itself the world's number one tyre company by paying $690m for Uniroyal-Goodrich, the US tyre company, and taking on $800m of Uniroyal's debt. Now Michelin's chairman is uttering grim warnings about future earnings and its shares have collapsed 13 per cent in the last seven days. At Friday's closing price of FFr108.2 they trade at less than a third of their pre-Crash high, with little reason to expect much of a recovery soon.

Of course, there are always ways of rationalising a situation like this to make it sound more acceptable. The rest of the world tyre industry is heading for choppy waters: demand is flattening out; margins are under pressure; and tyre-makers have poured perhaps $6bn worldwide into new capacity. But Michelin is far from being the only instance of an acquisitive French industrial company delivering awful share-price performance.

Thomson-CSF bought the Philips defence interests last August and had a long look at Ferranti: but its own shares have more than halved in value in the last year. Rhône-Poulenc spent more than $1.3bn in 1989 on overseas bids. In the last 18 months its shares have underperformed the market by more than 30 per cent. How long can this kind of performance go on? In family-controlled Michelin's case, presumably quite a time; equally so in that of Thomson-CSF, still majority-owned by the French state. There are, to be sure, many cases of astute acquisitions by French companies. But investors should be wary of French blue chips with geopolitical ambitions.

# UK industry's orders at eight-year low

**By Michael Prowse** in London

BRITISH INDUSTRY'S order books are at their lowest level for eight years, according to figures published by the UK employers' association, the Confederation of British Industry, strengthening the view that economic growth is beginning to slow rapidly.

The figures, published today in the CBI's latest monthly trends inquiry, come after several months of conflicting economic signals, and suggest that the Government's prolonged monetary squeeze is beginning to bite, at least in manufacturing industry.

Following the pound's recent surge on the foreign exchanges, the figures may also strengthen demands for an early cut in interest rates. Any such pressures, however, are likely to be resisted by Mr John Major, the Chancellor of the Exchequer, who stressed only on Friday that progress in reducing inflation had been slower than hoped.

In its latest Economic Outlook, also published today, the London Business School projects several years of sluggish growth and declining inflation. This is based on the assumption that sterling enters the exchange rate mechanism of the European Monetary System, probably this autumn, at or above current market rates. It sees no scope for interest rate cuts this year.

The CBI survey suggests inflationary pressures in manufacturing could be easing. The proportion of companies expecting to raise factory gate prices was the lowest for over three years.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said reduced demand and intense competition were preventing manufacturers' from passing on rising costs in higher prices. This was "good news for inflation but bad for profit margins."

He warned that companies were shedding labour and were under pressure to reduce investment spending. This was worrying because an expansion of manufacturing was essential if "we are to overcome inflation and reduce the balance of payments deficit."

The Treasury welcomed the news that fewer companies were planning to raise prices. Officials also noted that export order books, as opposed to total orders, were stronger than a year ago. This supported the view that stronger export markets were helping to insulate manufacturers from the domestic slowdown.

In detail, the survey showed that 36 per cent of manufacturers had below normal order books while 14 per cent had above normal books. The difference between the two – which measures the trend – was 22 per cent, the lowest balance since June 1982. It compares with minus 6 per cent last June. The negative balance on export order books was smaller at minus 3 per cent. This compares with a zero balance in May and minus 14 per cent last June.

On inflation, a balance of 17 per cent of companies forecast higher factory gate prices over the next four months, the lowest proportion since October 1986. This compares with 21 per cent expecting higher prices a year ago.

The survey, carried out between May 25th and June 20th, covered 1,376 companies responsible for about half of UK manufacturing exports and employment.

*London Business School forecasts, Page 8*

# Heathrow plans fifth terminal

**By Paul Abrahams and Andrew Hill** in London

BAA, formerly the British Airports Authority, is negotiating with Thames Water, the largest of the UK's 10 recently-privatised water companies, for the sale of land necessary to construct a fifth terminal at London's Heathrow airport.

The terminal, which would be by far the biggest project yet undertaken by the company, could eventually cost BAA as much as £2bn ($3.4bn) according to analysts.

Thames refused to say how much the deal would be worth. BAA's ability to finance the project was made easier last week when the company's airport assets were revalued at an estimated £3.96bn. The revaluation will help BAA raise capital for the new terminal from financial institutions and prevent it having to ask shareholders for additional resources.

BAA has not yet decided whether to build additional capacity at Heathrow, which lies west of London, or at Stansted, north of the capital.

Analysts are concerned that in the short term BAA may have difficulties in attracting airlines to Stansted in spite of the new terminal and a direct 40-minute express rail-link to London.

Charter traffic handled at BAA airports declined by 9.2 per cent last year, lessening the attraction of Stansted.

The new terminal capacity is required to handle the expected doubling of passengers travelling through south-east Britain's airports between now and the year 2005.

● The European Commission is expected to set out its objections to the deal between British Airways, Sabena, the Belgian airline, and Royal Dutch Airlines, to create Sabena World Airlines on Wednesday, shortly ahead of a UK Monopolies Commission report on the deal.

# IBM tries to rekindle home computer market

**By Louise Kehoe** in San Francisco

INTERNATIONAL Business Machines, the world's biggest computer company, will launch a range of low-cost computers tomorrow in the US which it hopes to establish as a standard home appliance in millions of households.

This marks an attempt by IBM to rekindle consumer interest in personal computers and to break into the low end of the computer market, the one segment which IBM has so far failed to dominate.

In 1983-84 IBM suffered one of its most embarrassing market failures when its much promoted PC-jr home computer proved a flop with consumers.

At that time IBM was trying to break into a market sector dominated by Atari, Apple Computer and Commodore whose computers were popular among hobbyists and as computer game machines for children

IBM may now face even more of a challenge. The US home computer market is in the doldrums. Nintendo's enormously popular home video game machines have taken over the computer game market and computer hobbyists now look for more powerful office-type personal computers.

Details of the new IBM PS/1 range remain closely guarded, but prices will start at around $1,000, according to industry insiders. The home computers are expected to be stripped down versions of IBM's current PS/2 range of office personal computers and to run most of the same programmes.

One model of the PS/1 line is based on the Intel 286 microprocessor, which also serves as the brains of IBM's current low-end office personal computer models, according to industry executives.

Options are said to include a hard disk drive, a computer mouse, and a modem that enables the home computer to communicate with other computers via telephone lines.

The majority of home computers in the US are used for office or classroom homework according to industry analysts, and for these uses, cheap Asian "clone" models are the most popular choice. IBM has priced the PS/1 aggressively to compete with the clones, but competitors can be expected to quickly match its price.

Apple Computer, one of the leaders in the home computer market in the early 1980s, is expected to launch a new range of lower-priced Macintosh personal computers later this year.

Reviving the home computer fad will require some compelling new applications, many industry observers believe. IBM is expected to tout computer shopping, banking and home information services such as Prodigy, its joint venture with Sears Roebuck, as a new attraction for home computer buyers.

Many observers remain sceptical, however, about IBM's ability to succeed in the fadish consumer electronics market. IBM's home computers will have to compete not only with other personal computers but also with similarly priced consumer electronics products such as video cameras which are currently the rage among US teenagers.

Computer shopping services must also compete with cable television shopping channels, which are gaining popularity.

To reach consumers who are not computer enthusiasts, IBM is expected to sell its new products through major department store chains in the US such as Sears Roebuck and Macy's.

"New users – people who've never seen a computer outside of a video arcade – make up most of our potential market," Mr James Cannavino, IBM vice president in charge of the company's personal computer business, told analysts recently.

## WORLDWIDE WEATHER

| | | Y'day midday °C | °F | | | Y'day midday °C | °F | | | Y'day midday °C | °F | | | Y'day midday °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | [illegible] | | | Dallas † | T | 23 | 73 | Madeira | C | 20 | 68 | Prague | F | 20 | 68 |
| Algiers | S | 30 | 86 | Dublin | C | 18 | 64 | Madrid | S | 32 | 90 | Reykjavik | C | 13 | 55 |
| Amsterdam | S | [illegible] | 58 | Dubrovnik | S | 28 | 82 | Majorca | S | 31 | 88 | Rhodes | S | 30 | 86 |
| Athens | S | 32 | 90 | Edinburgh | R | 12 | 54 | Malaga | S | 27 | 81 | Rio de Janeiro | – | – | – |
| Bahrain | S | 35 | 95 | Faro | S | 28 | 82 | Malta | S | 33 | 91 | Rome | S | 25 | 77 |
| Barcelona | S | 27 | 81 | Florence | [illegible] | 28 | 82 | Manchester | R | 12 | 54 | Salzburg | C | 19 | 66 |
| Belfast | C | 14 | 57 | Frankfurt | F | 21 | 70 | Melbourne | F | 11 | 52 | S'Francisco † | C | 13 | 55 |
| Belgrade | S | 23 | 73 | Geneva | S | 25 | 77 | Mexico City | – | – | – | Santiago | – | – | – |
| Berlin | [illegible] | 17 | 63 | Gibraltar | S | 24 | 75 | Miami † | F | 27 | 81 | Seoul | C | 24 | 75 |
| Biarritz | C | 22 | 72 | Glasgow | R | 12 | 54 | Milan | F | 26 | 79 | Singapore | F | 32 | 90 |
| Birmingham | R | 15 | 59 | Guernsey | C | 15 | 59 | Montreal † | R | 18 | 64 | Stockholm | C | 18 | 64 |
| Blackpool | R | 13 | 55 | Helsinki | S | 24 | 75 | Moscow | F | 19 | 66 | Strasbourg | C | 19 | 66 |
| Bombay | [illegible] | 31 | 88 | Hong Kong | S | 30 | 86 | Munich | R | 17 | 63 | Sydney | S | 14 | 57 |
| Bordeaux | S | 23 | 73 | Innsbruck | F | 22 | 72 | Nairobi | – | – | – | Tangier | S | 29 | 84 |
| Boulogne | F | 16 | 61 | Inverness | R | 13 | 55 | Naples | S | 28 | [illegible] | Tel Aviv | S | 29 | 84 |
| Bristol | R | 14 | 57 | Isle of Man | R | 12 | 54 | Nassau | – | – | – | Tenerife | F | 24 | 75 |
| Brussels | F | 21 | 70 | Istanbul | S | 28 | 82 | Newcastle | R | 14 | 57 | Tokyo | S | 28 | 82 |
| Buenos Aires | | – | – | Jersey | F | 18 | 64 | New Delhi | [illegible] | 35 | 95 | Toronto † | C | 13 | 55 |
| Budapest | F | 24 | 75 | Johannesburg | [illegible] | 12 | 54 | New York † | S | 23 | 73 | Tunis | S | 34 | 93 |
| Cairo | S | 34 | 93 | Las Palmas | F | 25 | 77 | Nice | S | 24 | 75 | Valencia | F | 26 | 79 |
| Cape Town | S | 16 | 61 | Leeds | R | 15 | 59 | Nicosia | S | 29 | 84 | Venice | S | 26 | 79 |
| Cardiff | R | 14 | 57 | Lisbon | S | 28 | 82 | Oporto | S | 26 | 79 | Vienna | F | 20 | 68 |
| Chicago † | S | 14 | 57 | Locarno | S | 26 | 79 | Oslo | F | 18 | 64 | Warsaw | F | 19 | 66 |
| Cologne | F | 20 | 68 | London | C | 17 | 63 | Paris | F | 20 | 68 | Washington † | [illegible] | 22 | 72 |
| Copenhagen | F | 19 | 66 | Los Angeles † | S | 16 | 61 | Peking | C | 30 | 86 | Wellington | S | 12 | 54 |
| Corfu | S | [illegible] | [illegible] | Luxembourg | [illegible] | 16 | 61 | Perth | S | 13 | 55 | Zurich | F | 20 | 68 |

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder.
† Noon GMT temperatures

# Iran hit by further earth tremor

Continued from Page 1

quoted by IRNA .

"The whole area is stinking because of decaying corpses which make rescue operations the more difficult," he said.

The Soviet Union sent the biggest contingent with relief workers, equipment and medical supplies streaming over the border into Zanjan from neighbouring Soviet Azerbaijan. More than 270 Soviet doctors and nurses have begun work.

The French government also sent 205 specialist disaster workers and 18 sniffer dogs trained to detect trapped bodies.

British Prime Minister Margaret Thatcher, whose country's relations with Iran are in tatters because of Tehran's death sentence on British author Salman Rushdie, sent a message of sympathy.

A 17-member British team with ultra-sonic listening devices and thermal cameras to locate trapped survivors flew to Iran on Friday. A second aircraft left yesterday carrying 550 tents, water containers and 12,500 blankets.

Over the next three days 18 relief flights from Red Cross or Red Crescent societies carrying 124,000 blankets and 5,000 tents, as well as medical kits, are due to arrive in Tehran.

Japan said it was providing more than $1.5m in emergency aid and had sent a 22-member accident team.

The US government and private agencies have sent more than 40 tonnes of relief supplies. US charities donated supplies worth $1.7m.

Iraqi President Saddam Hussein, who fought a bitter war with Iran for eight years which caused about 1m casualties, sent his condolences.

Two military aircraft left Egypt for Iran yesterday after initial opposition from Tehran. Egypt has been at odds with Iran for over a decade and backed Iraq in the Gulf War. The Shah of Iran was given asylum in Egypt after his fall in 1979 and is buried in Cairo.



مطابق للأصل

FINANCIAL TIMES

# COMPANIES & MARKETS

Monday June 25 1990





## INSIDE

### British investment heads for the sun

If eastern Europe has officially become western Europe's favourite investment target, someone has forgotten to tell British industry. In the last 18 months, the British have become the biggest direct investors in Spain, knocking aside West Germany and France and turning an investment profile once dominated by share purchases on its head. Peter Bruce reports. Page 24

### Quality at a local level


Europe is pushing multinational companies to increase the "local content" of their products and services. The obsession of European government ministers with job creation, has started to give way to a concern about job quality and multinationals are also being encouraged to raise skill levels further by starting local research. Yet this pressure mainly misses the point. It is easy enough for a multinational to employ a few score off-line local researchers, But a fully-fledged on-line local development effort requires a different level of managerial commitment, writes Christopher Lorenz. Page 36

### Cracks in another wall

It could prove to be a significant breach in the German corporate fortress. A commercial court ruling against Continental, the West German tyre company, last week substantially increases the chances that a challenge to the group's controversial voting right restrictions – being mounted by a shareholder rights group at its annual meeting in Hanover on Wednesday – may succeed. Voting right restrictions are widely seen as a deterrent to takeover activity in West Germany. Katharine Campbell reports. Page 22



# The Marlboro man takes his coffee strong

**Martin Dickson** looks at the logic behind Philip Morris's $3.8bn bid for most of Jacobs Suchard

Chilled, canned cappuccino coffee may not be to everyone's taste.

Yet this exotic beverage has been undergoing tests at Kraft General Foods, the largest food processing company in the US. And it underlines a new vigour and drive for market share by the world's second biggest coffee manufacturer, best known for its Maxwell House brand.

That drive was powerfully reinforced last Friday when Philip Morris, the parent company of KGF, launched a $3.8bn (£2.2bn) agreed bid for most of Jacobs Suchard, the Swiss coffee and chocolate group.

At one gulp, the acquisition satisfies several Philip Morris cravings, and at a relatively modest price:

- it increases the company's exposure to the food business;
- it virtually doubles the size of those operations in Europe;
- it greatly improves the geographical spread of the group's coffee interests;
- and, at a stroke, it makes it a substantial player in the confectionery sector.

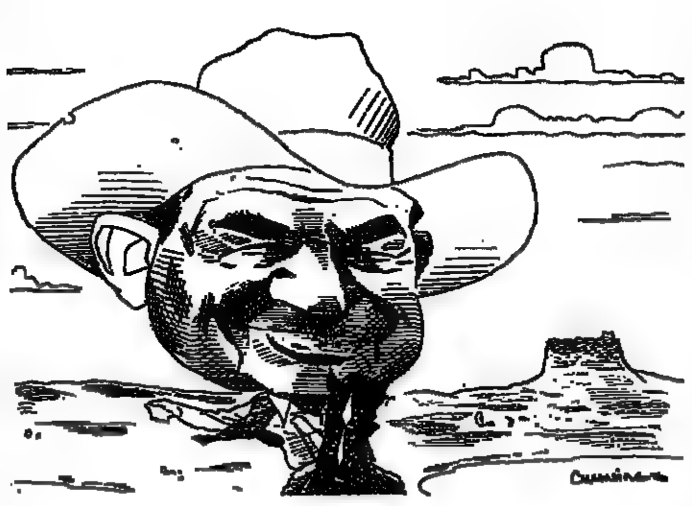
"This is a very attractive acquisition," says Ms Nomi Ghez, an analyst at Goldman Sachs.

Philip Morris, creator of the best-selling Marlboro brand, is the most successful cigarette company in the US. But, in common with other tobacco manufacturers, it has been trying to reduce its dependence on revenue from a sector which is in decline in the developed world.

Its diversification has moved rapidly since Mr Hamish Maxwell, Philip Morris' soft-spoken Scottish-born chairman, took charge in 1984. The next year he swallowed General Foods (and with it Maxwell House) for $5.7bn. In 1988 came a rather larger mouthful – Kraft, the dairy products business, for $13bn. The result is the world's second largest packaged foods company, behind Nestlé of Switzerland, with operating profits last year of $1.58bn on sales of $22.9bn.

General Foods' performance was initially lacklustre, but the combination with Kraft seems to be producing better results. Some $400m of productivity savings have been made as a result of the union, and company officials have said that further improvements would allow the combined operation to sustain earnings growth of 15 per cent a year.

The Suchard acquisition, bringing with it some $3bn of additional sales, will not radically change the overall size of KGF.



Hamish Maxwell: he has ridden a trail of rapid diversification

But it will double its European operations and give the group a critical mass and a strong distribution network. This will enable it to put up a much better fight against the two local giants, Nestlé and Unilever, ahead of the creation of the single European Community market. The bid is a classic example of two major international industrial themes.

One is the restructuring of the world food industry as leading manufacturers fight for market share and top brand names. More generally, this is precisely the kind of deal analysts have been predicting will replace the high leveraged takeovers of the 1980s: a strategic bid by a well-financed blue-chip US company wanting to expand in Europe.

On the coffee side, Suchard and KGF make a particularly good fit. The Swiss company is strong in West Germany and France. Analyst reckon it will increase KGF's market share in the former from 6 per cent to around 30 per cent and in the latter from 2 per cent to around 40 per cent.

KGF, for its part, is strongest in the UK, Scandinavia and Spain. Its main UK brands are Kenco and, in the instant market, Maxwell House, with a 12 per cent market share against Nescafé's 37 per cent. KGF's coffee business is bouncing back after going through a very bad patch two years ago when it swung into losses. In a bizarre marketing policy, it even stopped advertising for a while.

But over the past year it has been aggressively clawing back US market share, introducing new products and experimenting with yet more, such as the cappuccino concoction. Analyst John Maxwell at Wheat First Butcher reckons KGF heads instant coffee sales, with 36.7 per cent of the market, just ahead of Nestlé, and is level pegging with Procter & Gamble, on 32.1 per cent, in the regular sector. However, in the US, coffee, like tobacco, has been a slowly declining market (though flat for the past two years), encouraging manufacturers to look abroad for growth.

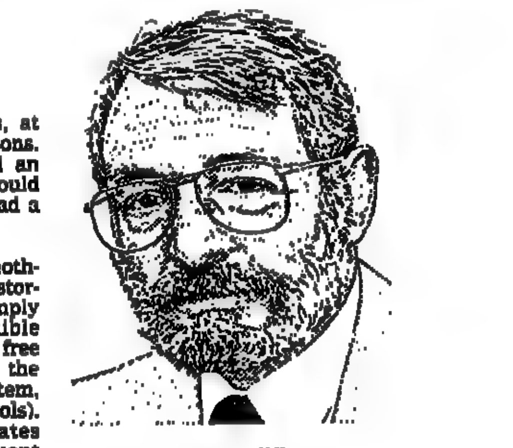
The chocolate side of the Suchard business will bring KGF 11 per cent of the European market – including such premium names as Toblerone – and its first significant presence in the confectionery field. At present, its only operations in this area are a chewing gum business in France and a baking chocolate operation in the US. But Philip Morris made clear on Friday that it sees the sector as a substantial opportunity for growth.

The deal will in no way strain the group's balance sheet. Its tobacco operations just throw off money and are expected to generate excess cash flow of more than $15bn between 1990 and 1994.

But the very success of the cigarette business means that, even after the Suchard deal, Philip Morris will remain very much a tobacco group with a food arm. For while food and drink (through Miller beer) make up just over 60 per cent of sales, they will still only account for some 38 per cent of operating profits. To redress the balance further will mean more productivity gains from KGF and additional acquisitions with the help of that great big money machine.

Why Suchard sold, Page 22

# A tale of two dollar policies



By Anthony Harris in Washington

There may be some fall-out from the events of last Friday. In the morning, there was a run on the Canadian dollar. In the evening, there was trouble on Wall Street.

The Canadian slide seems likely to prove only a rehearsal for this week: Ottawa surely has enough trouble without a dollar crisis. If the political problems can be solved, it may be time to look again at Canada's expensive attachment to what Mrs Thatcher would call monetary sovereignty.

On Wall Street, a burst of programme selling took the Dow down 67 points in 35 minutes. This has already provoked the usual protests from retail brokers. They are hungry for business, and refuse to believe the evidence that such computer-driven adjustments are basically stabilising, even though they are sudden. But there are also growing worries about the real economy, and they are serious.

If the market should fail to bounce back today, the name-calling in Washington will soon shift from market management to monetary policy. Even hardline analysts are becoming puzzled by the Fed's immobility. The forward indicators for inflation – employment costs, primary goods prices and industrial surveys – have been suggesting a slowdown for a good three months. The gold price, which some Fed governors believe is significant, is shrieking that policy is too tight.

The indicators of real growth are beginning to look like recession warnings. Housing starts are back to 1982 levels, the car market is weak, investment orders are falling and huge lay-offs are threatened in defence. Yet the Fed chairman, Mr Alan Greenspan, could give no more than a demonstration of semantics when he appeared before the Senate Banking Committee last week.

He offered a when-is-a-squeeze-not-a-squeeze talk on bankers' prudence, explained how the savings and loan rescue might be distorting the broad money aggregates, and confessed himself "puzzled" by the slowdown in the economy. This waffling suggests indecision; but it is only a week to the next meeting of the FOMC (Federal Open Market Committee).

The Fed's problems are partly political. The bond markets are worried by the shadow-boxing which passes for policy-making on Capitol Hill, so the Fed must sustain confidence. Despite his declarations of open-mindedness, President Bush is still trying to impose his flexible freeze, by Boskin out of Micawber (Dr Michael Boskin is his chief economic adviser). This is based on the hope that if you talk long enough about living within your means, something will turn up.

In this cause the Budget Director, Mr Richard Darman, has at last produced some White House proposals – an unappetising list of spending cuts, with no word about taxes. This seems not so much a negotiating stance as an attempt to fix the blame for a deadlock on Congress. It deserves the same fate as the attempt last week to protect the flag by amending the Constitution, aiming again to saddle the Democrats with a vote that might be used against them. The House called that bluff.

Meanwhile, the Administration's only serious economic initiative has been to try to persuade the Fed to ease policy, and to stimulate export growth through a further dollar devaluation. This arm-twisting has had the results you might expect: the puritan regional Fed Presidents feel embattled, and the purists in the markets regard the US Treasury as un-American. There have been gleeful reports of a Treasury-Fed face-down.

Yet there is a lot to be said in favour of the Treasury approach – or would be, if the deficit was under control. Export growth is hardly dynamic if you leave out Boeing, which is competitive because of sheer size and expertise. Domestic inflation is only very loosely connected to the exchange rate, as the 1985-86 devaluation showed (and that was achieved with a monetary binge which would hardly be needed now). And since credit is now restrained by "prudence," as Mr Greenspan calls it (sheer funk is nearer the mark), lower interest rates would not provoke a credit explosion.

It is clear, of course, that an easier Fed policy would involve a lower dollar; but this would surely be an appropriate response to events in Europe. The ex-Communist countries will for some time have an insatiable demand for capital. This can only be found without a further rise in real interest rates worldwide if US capital hunger is restrained.

A structural adjustment of this kind would normally require a hefty fiscal squeeze to "validate" the devaluation; but by sheer luck, US domestic demand is moderating of its own accord. Thanks to the hangover from Reagan-era financial de-regulation (presiding officer: George Bush), the President can afford to go on dithering about taxes, at least until the mid-term elections.

This is what economists call an "as if" situation: the Fed could risk behaving as if the US had a serious administration.

The central point has nothing to do with such historical accidents: it is simply that the function of flexible exchange rates is to facilitate free capital flows (the reverse of the Bretton Woods near-fixed system, which rested on capital controls). High relative interest rates attract capital; the consequent rise in the exchange rate pushes the current account the other way, as the accounting identities demand. And vice versa.

The Fed is right to argue that its monetary policy should respond to domestic conditions, and not to exchange rate pressures; but it should be consistent. It sometimes seems that Fed policy is indifferent to a strong dollar, but panicky about a weak one. This is a recipe for deflation, and it is unnecessary; the dollar zone is big enough to achieve its own stability. It is exchange rate movements between such zones which help international adjustment.

Which brings us back to Canada. What is true of the greenback is not true of the Canadian dollar. In two decades of floating it has achieved a sense of monetary sovereignty, and some stimulus for manufactures when commodity prices were weak. But the cost has been high: returns on investment have been unpredictable, wage pressures unchecked and interest rates depressingly high, despite much more prudent credit management than in the US. The Canadian economy is too small and too inflation-prone to float stably. In the great national rethink which now seems inevitable it should surely consider swallowing its monetary pride. Look what it has done for confidence in London.

Economics Notebook

# Out of step on the Ecu

"FOG IN Channel – Continent isolated."

That old, possibly apocryphal, newspaper headline sprang to mind last week as Mr John Major, the Chancellor, unveiled the UK Government's proposals for a "hard Ecu" and European Monetary Fund.

For, the British plan, technically ingenious though it is, appears not to be synchronised with events among the UK's European partners.

As the Treasury was putting the final touches to its alternative to stages two and three of the Delors Committee programme for Economic and Monetary Union (EMU), five European Community members were signing a Treaty that could well accelerate the process of a two-speed monetary union in Europe.

The Schengen Treaty, signed last Tuesday, is not concerned with money. But by the time it is ratified by the parliaments of West Germany, France, Belgium, the Netherlands and Luxembourg, it will have created a free travel zone from the present East German border with Poland to the Pyrenees.

It is hard to imagine that the cessions of sovereignty over such areas as policing and immigration that are envisaged under the Schengen pact will not be paralleled by an eagerness on the part of the five to move more swiftly towards monetary union.

And indeed, that is already happening. It now appears that Mr Karl Otto Pöhl, the Bundesbank president, was not breaking new ground when he raised the possibility of a two-speed EMU two weeks ago after a meeting in Luxembourg of Ecofin, the regular monthly gathering of EC economics and finance ministers.

According to one highly placed European monetary official, France put forward the same idea in the same forum in May. Among the Schengen countries, Belgium is acting as if the goal of a two-speed monetary union already exists. Belgium is binding its franc (and therefore that of Luxembourg which is in economic union with Belgium) ever closer to Deutsche Mark.

More broadly, work towards the Delors Committee goals of a single European currency and central bank is forging ahead.

The EC's central bank governors are already preparing the draft statutes of a future European central bank (dubbed Eurofed) to be ready for the December Intergovernmental Conference (IGC) of EC countries that will discuss the way forward to EMU.

The hard Ecu idea will have to overcome Mr Pöhl's opposition to parallel currencies on the grounds that they are inflationary.

Other leading central bank governors also have serious reservations about the development of parallel currencies alongside the EC's existing 12 currencies. In a speech in Paris at the end of April, Mr Jacques de Larosiere, the French central bank governor, forecast that the Ecu would emerge as Europe's sole currency through the process outlined in the Delors report.

The issue of a 13th currency would be "likely to entail more drawbacks than advantages," he said.

Giving evidence last week to the House of Lords Sub-Committee on Economic, Monetary and Political Union, Mr Robin Leigh-Pemberton, the Governor of the Bank of England, described how Germany, France, the Netherlands, Belgium and possibly Denmark already believed they could operate a form of monetary union with little or no fluctuation between their currencies.

In the Governor's view, the five believed that such a monetary union would act as a "magnet" that would draw other countries to join this core group.

Faced with this momentum, the British government's belief that it can promote the hard Ecu as a 13th currency in the Community as part of a complex plan appears quixotic.

To judge from the Governor's evidence, the UK hopes that the other EC countries will see merit in the British plan the nearer they get to the IGC.

The Bank believes that, as the IGC negotiations settle down, various hidden problems associated with the general vagueness of stage two of the Delors proposals will come to light. UK monetary officials have already drawn some comfort from the extremely hostile reception given to Mr Pöhl's remarks on a two-speed EMU in Italy and Spain.

However, the experience of the past 18 months serves as a warning against British hopes that the steam will go out of monetary union.

When the Delors report was completed in April last year, some of the central bank governors on the Delors Committee believed that they had crafted a document that pointed out the difficulties of EMU and would therefore warn politicians off such an ambitious project.

They failed to take into account the inability of busy public figures to penetrate the subtleties of "central bank speak" when faced with a project such as EMU which had captured their imagination and the imagination of many ordinary EC citizens.

**Peter Norman**

## THIS WEEK

IN the US and UK this week, the focus will be on the success of monetary policies as indicated by data about personal demand.

*In the UK, the authorities* are citing a falling rate of new vehicle registrations as evidence that the high interest rate is squeezing demand from the economy. Retail sales figures are among other indicators pointing in the opposite direction. But further Treasury ammunition could be afforded this Thursday with the latest vehicles registrations figures.

In the US, no change of monetary policy is expected prior to the meeting of the Federal Open Markets Committee in early July, where the recession and inflation risks of the second half of the year are to be fully discussed. *Assessments of* prospects for the economy – and any possible easing in Federal policy – will depend on whether new data confirms or contradicts the message of the weak retail sales figures.

New home sales and automobile sales, both out this week, will thus be important indicators of domestic demand. Economists are warning that news of any further decline in either would threaten economic growth prospects.

West Germany's Bundesbank is this week carrying out its mid-year review of economic policy. Whether it should be tightened or not is currently a matter for debate as monetary union at the beginning of July looms.

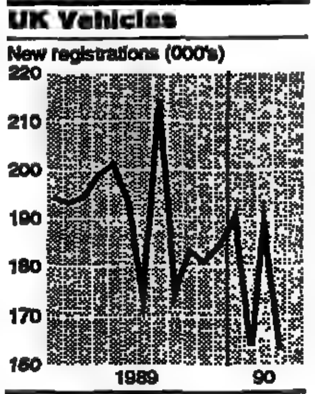
It is a busier week for releases in Japan, where attention should focus on the consumer price data – predicted to stay under 3 per cent. This is not the case in West Germany, where reunification effects and wage pressures could cause a rise to 3 per cent by the year-end.

In the UK, the focus will be on today's monthly trends survey from the CBI.

Other notable events and statistics, with forecasts from MMS International, the financial research company, in brackets, include:

**UK Vehicles**

New registrations (000's)




**Today:** UK, June, Confederation of British Industry monthly trends inquiry. US, June, domestic automobile sales. Dublin, European Economic Council Meeting.

**Tomorrow:** UK, personal income, expenditure and saving, first quarter. Japan, leading and coincident indices of business conditions for April, industrial activity for May (2.4 per cent). US, two-year note auction.

**Wednesday:** UK, cyclical indicators for the economy. Japan, retail sales at large stores for May (10.3 per cent). Bank of Japan Governor Mieno holds regular press conference. US, leading indicators for May (0.7 per cent).

**Thursday:** UK, May new vehicle registrations, April energy trends. Japan, May housing starts. France, May consumer price index (3 per cent). West Germany, Bundesbank meeting. US, one-year bill auction, money supply data. Canada, gross domestic product, April (-0.3 per cent).

**Friday:** UK, capital expenditure and stockbuilding for first quarter, engineering sales and orders. Japan, consumer price index (Tokyo 2.8 per cent), balance of payments, unemployment. US, sales of new homes for May, agricultural prices for June. Canada, industrial product prices for May (0.2 per cent).

# INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL LENDING

## West Germany backs DM5bn Soviet loan

WEST GERMANY has led the way with support for the Soviet economy, following confirmation last Friday of a DM5bn government-guaranteed loan for balance of payments-related financing to be supplied via the Soviet Foreign Trade Bank.

Lead managed jointly by Deutsche Bank and Dresdner Bank, West Germany's two largest financial institutions, it has a maturity of 12 years and carries a margin of ½ point over six-month London inter-bank offered rate (Libor).

Deutsche Bank said ⅜ point of the margin went to Bonn as the guarantor with the remaining ⅛ for the banks, but would give no further details. A consortium is forming of several dozen leading banks.

There was a good deal of confusion regarding the terms of the government guarantee. While the banks were adamant Bonn was extending a 100 per cent guarantee, the Finance Ministry appeared to indicate the guarantee covered only 90 per cent. In the most recent similar case, two loans to Hungary – DM500m last year and DM1bn in 1987 – banks assumed 10 per cent of the risk.

The announcement of the loan coincided with the second round of the "two plus four" talks between the two Germanys and the Second World War allied powers, where West Germany is crucially dependent on Soviet support in the reunification endeavour.

The banks insist they would not be lending to the Soviet Union without full government backing. While the ⅛ point margin they earn makes sense for what amounts to West German government risk, any direct exposure to dicey Soviet credit would clearly have to be rewarded very differently.

London bankers said the facility was a sign of Germany widening its role in eastern Europe. The deal made sense as the secondary market for Soviet short-term debt has dried up after recent Soviet failure to meet outstanding trade payables.

Elsewhere, a jointly-underwritten $1bn revolving credit facility for Enimont Finance (Overseas) was launched into general syndication by a group of banks comprising Citicorp, BCI, Crédit Lyonnais, IBJ and Swiss Bank Corporation. The proceeds will be used for general corporate purposes, including refinancing some debt.

The five-year deal is extendible to seven years at the borrower's request and pays a margin of 25 basis points over Libor for three years, rising to 30 basis points. A one-year commitment fee of 10 basis points rises to ⅛ thereafter, while front-end fees for lead managers taking $70m are ⅛ per cent.

Bankers Trust was syndicating a $477m blended credit intended as finance for Ankara Metro to develop an underground transport system in the Turkish capital. The facility, which includes some eight-year sovereign risk, will be underwritten on a pro-rata basis across all its parts, giving an average margin more than a point above Libor.

Banque Paribas and Hypobank International announced syndication of a DM1.6bn seven-year term loan for Kronos International, a branch of Texas-based NL Industries. The facility pays a spread of 1½ per cent over Libor, with options for a reduction to 1¼ point depending on the company's level of indebtedness.

Citicorp announced a L50bn five-year facility for Mediocredito del Lazio, a regional Italian credit institution. The loan pays 22.5 basis points over Libor for three years, rising to 25 basis points thereafter.

**Katharine Campbell, Andrew Freeman**

### EUROMARKET TURNOVER ($m)

| Primary Market | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US$ | 1,152.9 | 0.0 | 499.9 | 13,624.2 |
| Prev | 944.0 | 89.6 | 50.0 | 13,038.7 |
| Other | 1,550.5 | 0.1 | 423.1 | 3,608.6 |
| Prev | 1,524.6 | 0.0 | 88.1 | 5,592.2 |
| **Secondary Market** | | | | |
| US$ | 18,406.7 | 797.5 | 6,873.4 | 7,173.9 |
| Prev | 20,007.5 | 704.3 | 6,823.7 | 6,451.8 |
| Other | 19,977.1 | 1,135.1 | 4,901.8 | 35,940.7 |
| Prev | 20,231.6 | 1,040.6 | 4,484.5 | 31,997.2 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US$ | 17,734.6 | 30,793.9 | 48,528.5 |
| Prev | 18,734.4 | 29,373.2 | 48,109.6 |
| Other | 25,381.4 | 42,165.6 | 67,547.0 |
| Prev | 25,965.1 | 38,593.7 | 64,558.8 |

Week to June 21, 1990. Source: AIBD

INTERNATIONAL BONDS

## Asset-backed securities make their mark on Europe

A BURST of activity in the asset-backed securities market last week prompted speculation that the vogue for securitisation might at last have reached Europe.

Two US banks issued $2.25bn of credit card-backed securities simultaneously in the US and Eurobond markets. In addition, Swiss Bank Corp is planning a $500m Eurobond backed by Chrysler car dealer receivables, while Goldman Sachs is close to launching the first sterling-denominated Eurobond backed by car loans, a £300m issue of floating-rate notes.

But the latest signs of expansion may be slightly deceptive, as the market remains substantially US-based, in terms both of issuers and investors.

The bulk of last week's global offerings for First Chicago and Citicorp, both launched by First Boston and Crédit Suisse First Boston, is reported to have been placed in the US. The amount of credit card-backed securities issued in the Eurobond market, including the global offerings, now total more than $5bn. All the underlying receivables originated in the US.

"The driving force in the US is the need to reduce assets to relieve pressure on balance sheets. Europe, by US standards, is still well capitalised," says Mr Jonathan Hakim, executive director at UBS Phillips & Drew. For institutions which are not under this sort of pressure, receivables can be attractive assets to hold.

Securitisation allows companies to remove assets such as car loans and mortgages from their balance sheets, by repackaging the assets in the form of bonds and selling them to investors.

The most likely European issuers are banks, constrained by capital adequacy requirements. However, many European banks can now raise fairly cheap subordinated debt, through the variable-rate note market for example, to bolster their capital ratios.

Nevertheless, learning from the experience of many of their US counterparts which often met only minimum requirements, many European banks are now trying to overcapitalise, according to Mr Mark Stadler, in charge of asset-backed securities at Salomon Brothers International. The main UK clearing banks have all looked at securitisation, although none has yet proceeded further.

Although placement of recent global offerings of credit card-backed bonds has veered towards the US, the strong performance of Citicorp's asset-backed Eurobonds, placed substantially in Europe, shows there is an appetite for such paper, and surprisingly strong retail participation.

Citicorp's $750m Euro Credit Card Trust 9 per cent bonds due 1995, launched last February at a yield spread of 87 basis points above the comparable US Treasury, are currently trading at a spread of 64 basis points, for example. By contrast, the first global offering credit card-backed bonds, SCCT's $1.25bn issue of five-year bonds launched last month, are now trading at 79 basis points, barely changed from their launch spread of 80 basis points. Retail investors did not participate in that deal because the bonds were issued in registered rather than bearer form.

Increasing credit concerns about corporate debt have nudged retail investors towards these triple-A rated securities, which still offer relatively high returns. European institutions, in particular UK funds, are becoming main buyers. However, Japanese investors have been notable for their absence, partly a reflection of their tendency to repatriate funds during much of this year. Although the UK boasts a healthy sterling mortgage-backed market, with an international investor base, the sector's growth may be rather stymied by the country's current housing market depression.

A primarily domestic market is also developing in France. Banks there are proving eager to securitise their assets, as many have been unable to raise equity capital due to government ownership. The legal framework has been in place since December 1988, but most of the FFr4bn of bank loan-backed securities launched in France to date, according to Ms Dora Volpery, in charge of securitisation at Banque Indosuez, has emerged in the last six months. She believes international investors are gradually entering this nascent market. Indosuez is currently working on a deal of up to FFr1.5bn which will be backed by bank car loans. Salomon Brothers will run an international tranche of as much as a third of the issue.

At this stage, steady investor demand, as well as potentially expanding domestic markets, suggest that the securitisation process is catching on in Europe, even if US issuers will remain the leading suppliers of paper. Indeed, the potential oversupply of asset-backed paper is its most likely downfall.

The realisation that issuers like Citicorp have vast pools of receivables ready to securitise has already injected a new note of caution.

"Institutions do not currently have sufficient credit lines in their portfolios to meet the sort of volume that is coming," cautions one US banker. "There will continue to be demand, but I do not think spreads will narrow much further."

**Tracy Corrigan**

### NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Ferrovie dello Stato(e)◆ | 500 | 2009 | 19 | 9⅛ | 99.80 | Morgan Stanley Int. | 9.170 |
| Reed Publishing (USA)◆ | 150 | 1997 | 7 | 9⅝ | 99.525 | CSFB | 9.722 |
| City of Kobe◆ | 150 | 2000 | 10 | 9¼ | 101.70 | Bk of Tokyo Cap.Mkts | 8.985 |
| BanCal Tri-State Corp.◆ | 65 | 1993 | 3 | 8¾ | 101⅜ | Mitsubishi Fin. Int. | 8.338 |
| First Chicago Mstr Tst II(h)◆ | 1bn | 1995 | 5 | 9¼ | 99.91 | CSFB/First Boston | [illegible] |
| Nippon Tel & Tel.◆ | 250 | 1997 | 7 | 9¼ | 99.70 | Paribas Capital Markets | 9.310 |
| Standard Cr.Card Tst 90-6◆ | 1.25bn | 1997 | 7 | 9⅜ | 99.585 | CSFB | 9.681 |
| Denmark, Kingdom of(l)◆ | 600 | 1995 | 4⅔ | 9¼ | 99.839 | J.P. Morgan Secs. | 9.289 |
| Banco Santander(m)‡◆ | 400 | undated | - | 40bp | 100 | Salomon Brothers | - |
| NMB Semiconductor◆ | 150 | 1994 | 4 | 12¾ | 111⅞ | Nomura Int. | 9.078 |
| Korean Dev. Bank(p)‡◆ | 200 | 1997 | 7 | ⅛ | 100 | J.P. Morgan Secs. Asia | - |
| Miwon Co.(r)§◆ | 30 | 2005 | 15 | 1¾ | 100 | Morgan Stanley Int. | 1.750 |
| Barclays Bank(v)◆ | 201 | undated | - | 11¼ | 100 | Merrill Lynch | 11.250 |
| Mitsui Taiyo K. A'tralia(t)◆ | 50 | 2000 | 10 | (t) | 102 | Mitsui Taiyo Kobe Int. | - |
| **CANADIAN DOLLARS** | | | | | | | |
| J.P. Morgan & Co.◆ | 125 | 1993 | 3 | 13 | 101⅞ | CSFB | 12.216 |
| NordLB◆ | 75 | 1993 | 3 | 13 | 101.70 | Bankers Trust Int. | 12.269 |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Daimler-Benz Int. Fin.◆ | 100 | 1995 | 5 | 14¼ | 101 | Deutsche Bk Cap.Mkts | 13.959 |
| Sth Australian Govt.Fin.◆ | 75 | 1993 | 3 | 15¼ | 102 | Hambros Bank | 14.353 |
| **D-MARKS** | | | | | | | |
| Italstat Int.(a)‡◆ | 180 | 2000 | 10 | ⅛ | 100 | Bayerische Vereinsbk | - |
| Banque Indosuez(c)‡◆ | 200 | 2000 | 10 | 35bp | 100 | Trinkaus & Burkhardt | - |
| WestLB Finance(d)★★◆ | 100 | 1993 | 3 | 11¾ | (d) | WestLB | - |
| Finland, Republic of◆ | 300 | 1995 | 5 | 9 | 101 | Dresdner Bank | 8.745 |
| Oil & Nat. Gas Comm.India◆ | 250 | 1997 | 7 | 9½ | 100⅝ | Commerzbank | 9.374 |
| Girozentrale-Vienna(n)◆ | 75 | 1993 | 3 | 12⅛ | 101½ | Bankers Trust | 11.506 |
| Mitsui Taiyo Kobe Bk(Lux)◆ | 40 | 2000 | 10 | (o) | 102 | Mitsui Taiyo Kobe | - |
| **SWISS FRANCS** | | | | | | | |
| Bayer.L'anstalt Aufbau(.(b)◆ | 50 | 1997 | - | 7 | 101¾ | SBC | 6.679 |
| EIB(f)◆ | 200 | 2002 | - | 7 | 102½ | SBC | 6.690 |
| Dai-ichi Katei Denki★★◆ | 70 | 1995 | - | 7⅛ | 100¾ | Bqe Paribas (Suisse) | 7.440 |
| Kayaba Industry★★◆ | 60 | 1995 | - | 7⅝ | 100¾ | Credit Suisse | 7.440 |
| American Health Prop.(g)§ | 50 | 2000 | - | (8½) | (g) | S.G. Warburg Soditic | ★ |
| Cariplo (London)★★◆ | 75 | 1994 | - | 7⅛ | 101¾ | Bqe Paribas (Suisse) | 6.613 |
| **STERLING** | | | | | | | |
| Halifax B. Society(f)‡◆ | 350 | 1995 | 5 | ⅛ | 99.92 | CSFB | - |
| Yorkshire B. Society(j)‡◆ | 100 | 1997 | 7 | 10bp | 100 | Hambros Bank | - |
| Alliance & Leicester(q)◆◆ | 200 | undated | - | ⅛ | 100 | Merrill Lynch | - |
| **ECUs** | | | | | | | |
| Japan Development Bank◆ | 200 | 1995 | 5 | 10½ | 101.80 | Credit Lyonnais | 10.025 |
| Italy, Republic of◆ | 1bn | 1997 | 7 | 10⅜ | 99⅞ | San Paolo Bank | 10.401 |
| **LIRE** | | | | | | | |
| Japan Air Lines Finance◆ | 115bn | 1995 | 5 | 12⅛ | 101.80 | IMI | 11.677 |
| **FRENCH FRANCS** | | | | | | | |
| Cie Bancaire◆ | 750 | 1995 | 5 | 10¼ | 100⅝ | Banque Paribas | 9.899 |
| St. Gobain Nederland◆ | 750 | 1995 | 5 | 10½ | 101.80 | CCF | 10.025 |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Saab-Scania Int. Fin.(s)★★◆ | 900 | 1995 | 5 | 9⅞ | 102 | BIL | 9.356 |
| Belgelectric Int.Fin.★★◆ | 900 | 1995 | 5 | 9⅝ | 101⅝ | BGL/BNP | 9.205 |
| Svenska Handelsbanken★★◆ | 300 | 1994 | 3.9 | 9¾ | 101¾ | BIL | 9.164 |
| Bqe Brux.L'bert-France★★◆ | 600 | 1996 | 6 | 9¼ | 102 | Credit Europeen | 9.300 |
| Banque Worms(s)★★◆ | 300 | 1997 | 7 | Zero | 53.70 | Kredietbank Int. | 9.289 |
| Bqe Indosuez-Paris★★◆ | 300 | 1996 | 6 | 9¾ | 102 | Banque Indosuez | 9.300 |
| **ESCUDOS** | | | | | | | |
| EIB◆ | 10bn | 1995 | 5 | 15½ | 100¼ | B. Totta e Acores | 15.425 |
| **FINNISH MARKKA** | | | | | | | |
| Veitsiluoto Oy◆ | 100 | 1995 | 5 | 13½ | 101⅞ | Postipankki | 12.967 |
| **YEN** | | | | | | | |
| Orix Ireland Finance◆ | 30bn | 1995 | 5¼ | (k) | 101¼ | Daiwa Europe | - |
| Okobank◆ | 3bn | 1992 | 2¼ | (u) | 101 | Yamaichi Int. | - |

★★Private placement. ‡Floating rate notes. @Variable rate notes. §Convertible. ◆Final terms. a) ⅛% over 6-month Libor first five years, then borrower has right to convert into non-callable bond paying 10% for five years. If not converted, issue remains FRN. b) Call after five years at 101½ declining thereafter. c) 35bp over 6-month Libor. Non-callable. Short first coupon. d) Last coupon can be paid in C$ at issuer's option. Issue price not disclosed. e) Fungible with existing $500m issue. Put July 1999 at par. f) ⅛% over 3-month Libor. Minimum fixed re-offer price 99.92. Call from July 1993 at par. g) Dual-currency convertible. If not converted repayment in US$ at indicated $3000 per SFr5000. h) Non-callable. i) Call after nine years at 101½ declining ½% p.a. j) 10bp over 3-month Libor. Put at par in 1995. Additional £50m on tap. k) Short first coupon of ⅛% over 3-month Libor, then 7% fixed. l) Issued via auction system. $200m allocated to Danish Central Bank. Fungible with existing $771m bond launched in March. m) 40bp over 3-month Libor. Fall back rate: years 1-5 75bp over 3-month Libor, years 6-10 90bp over Libor, years 11-15 110bp over Libor and 125bp over Libor thereafter. n) Redemption in DM at 100 or in C$ at borrower's option. o) First two years ⅛% over 6-month Libor, remainder 9% annually thereafter. p) ⅛% over 6-month Libor. Put at par July 1995. q) ⅛% over 3-month Libor. Fall back rate: years 1-5 90bp over Libor, years 6-10 100bp over Libor, years 11-20 125bp over Libor and 145bp over Libor thereafter. r) Put July 1995 at 130.19 to yield 7%. Callable. Conversion price Won22,114. Conversion premium 20% over five day average. s) Fungible with recent issue. t) 30bp over 6-month Libor years 1-4, remainder 10% fixed. Call 1994 at par. u) ⅛% over 3-month Libor first 3-months, next year 9%, remainder 9% or 10% linked to yen/Ecu exchange rate. v) Issued in US. Non-cumulative preference shares. Call after 10 years. Note: Yields are calculated on AIBD basis.

# Conti loses court ruling in investor voting rights row

**By Katharine Campbell in Frankfurt**

A COMMERCIAL *court ruling* last week against Continental, the West German tyre company, substantially increases the chances that a challenge to the group's controversial voting right restrictions – being mounted by a shareholder rights group at its annual meeting in Hanover on Wednesday – may succeed.

Voting right *restrictions are* seen as a deterrent to takeover activity in West Germany. If the measure were struck down at Conti, itself possibly vulnerable to the advances of leading *foreign tyre companies, the* episode would mark a significant breach in the German corporate fortress. It will be the first time the mechanism had fallen outside the context of a *hostile bid.*

An increasingly nervous Conti last week made an unsuccessful application to a Hanover commercial court in endeavouring to increase from 50 to 75 per cent the majority needed to overturn the voting *restrictions of those present at* the AGM.

The court, dismissing the application, broke with convention and said the restrictions anyway served as a protection of management that might not be in the interests of shareholders. "The interests of the managing board do not necessarily coincide with the interests of the company," the judge said in court papers obtained by the Financial Times.

Voting right restrictions, employed by around 20 big German companies, limit *shareholders' votes to a fixed* (in this case 5 per cent) proportion of the capital, regardless of the size of their stake.

The DSW, a prominent Dusseldorf-based shareholders' *rights group, has tabled* motions at several AGMs this year, including that of Deutsche Bank, the country's biggest bank, recommending the lifting of the restrictions. Conti's management has come out strongly against the move, but its shares are broadly held and a number of parties are keen to make this a test case of shareholders' rights.

The company says that attendance on Wednesday is likely to be between 50 and 60 per cent – indicating considerable interest in the affair.

Continental's attempt to introduce the 75 per cent majority at last year's AGM stumbled last year with a court challenge by an individual shareholder, which is still pending. In a separate process possible in Germany, Conti *went to the commercial court* in October, asking for the 75 per cent amendment to be entered into its by-laws anyway, until the other court had made its decision.

*Unsuccessful then, it* returned last week, arguing that the situation had changed with the DSW's application at the AGM and that the amendment could be decisive if the company was going to defeat the DSW.

# BBV deal with French bank close to collapse

**By Peter Bruce in Madrid**

AN AMBITIOUS plan by Banco Bilbao Vizcaya, Spain's biggest bank, to leap into the French market through an exchange of branches with Banque Nationale de Paris (BNP) is close to collapse.

BBV and BNP officials confirmed at the weekend that 10-month negotiations under which BBV would cede at least 40 branches of its Banco de Credito affiliate in Spain to BNP in return for a similar number of branches belonging to Crédit Universel, a BNP subsidiary, in France had run into serious trouble.

A French official described the problem as "cultural." The exchange was the brainchild of the late co-president of BBV, Mr Pedro Toledo, who died late last year. Mr Toldeo had been president of Banco de Vizcaya, which merged *with Banco de Bilbao in 1988.*

Since his death, however, and the accession of Mr Emilio Ybarra, a former Bilbao vice president, as sole BBV president, analysts say former Vizcaya *initiatives* have taken a back seat.

The talks are understood to have run into trouble after BNP demanded that the group of branches being offered by BBV in Spain *should* be recapitalised before being handed over.

The BNP official said, though, that the talks had not yet been abandoned.

● Banco Central, Spain's third largest commercial bank, has surprised the Madrid market by announcing it has rejected plans to group its massive industrial holdings into a quoted holding company for *fear* of instability in the markets.

Central had been expected to follow the rival Banesto, which plans to float its new industrial company in September.

But Mr Alfonso Escamez, Central's chairman, said a fall in the value of the new holding company's shares below the value of the combined assets could force the bank to make heavy provisions.

Central boosted first-quarter pre-tax profits 115 per cent to *Pta30.2bn ($292.4m).*

# New chairman sees slimmer Chase

**By Alan Friedman in New York**

MR TOM LABRECQUE, the 51-year-old former naval intelligence officer who is to head Chase Manhattan, aims to scale down its corporate finance operations to deal with a downturn in business. He cites worsening problems in the commercial property market as another key issue to be tackled at the US bank.

Mr Labrecque will be chairman and chief executive while Mr Arthur Ryan, now vice chairman, will replace him as president and chief operating officer. In their first interview since the appointments, they denied that Chase was a troubled bank, but admitted that "we clearly have some troubled businesses."

Tom Labrecque: "we have some troubled businesses"

Chase, along with other banks such as Citicorp and Chemical Bank, has had its credit rating downgraded recently because of these prob*lems. It is expected that* Chase's non-performing property loans will increase by $200m this year, to around $1.1bn, or nearly 12 per cent of the bank's $9.3bn real estate portfolio.

Mr Labrecque, a soft-spoken avid cyclist and sailor with a reputation for being a tough *manager*, came up on the treasury side of Chase. He succeeds Mr Willard Butcher, who took over from Mr David Rockefeller in 1980.

Plans for Chase include integrating its consumer, institutional, and global finance and markets units. Mr Richard Boyle and Mr Robert Douglass, currently vice chairmen in charge of the global and institutional banks, will be given new executive responsibilities as part of the reshuffle.

*Mr Labrecque said he plans* to take personal responsibility for financial management, asset/liability management, Third World debt exposure and overall strategy. Mr Ryan, who is given high marks by analysts for developing Chase's retail banking business, will handle day-to-day management of the bank.

*The two men* say the continued expansion of retail banking is a priority, although they claim that corporate business, although likely to streamlined, will not suffer as a result. This year retail *banking profits* should represent around half of core earnings, up from 40 per cent in 1989.

Mr Labrecque said real estate and *corporate finance* problems have spread since the start of this year, when he began the strategic review that led to today's reorganisation.

"*As late* as 1989 real estate hadn't yet hit the wall and corporate finance was still going strong. It was only in the first half of 1990 that things have deteriorated," the chairman-designate said.

Mr Labrecque said real estate problems were no longer merely regional, as had been thought a few months ago. "It's a *business where the envi*ronment is deteriorating more than anyone has predicted," he said.

Mr Ryan said the far-reaching changes planned by the bank need to be made rapidly in order to adapt to the increasingly difficult environment.

Mr Tom Swayne, Chase's London-based head of European operations, agreed the restructuring was overdue: "The bank hasn't changed as quickly as it needed to."

# Lost ambition of food empire

**William Dullforce on why Jacobs Suchard agreed to a takeover despite its global goals**

The key sentence of the resolution by which the Jacobs Suchard board approved the sale of the company to Philip Morris on Friday reads: "There was no Swiss solution for the creation of a global coffee and confectionery business."

It is a tantalising statement from a company that two years ago was prepared to put up more than £2bn ($3.5bn) in a lost battle with Nestlé for control of Britain's Rowntree, and last April had plans for expansion in the Far East.

It remains a moot point to what extent the abandoning of ambitions results from Mr Klaus Jacobs' appraisal of his own future interests, and to what extent from a realistic assessment of the Swiss group's prospects in the intensifying struggle for market shares and brand names among the big foods groups.

Last year Jacobs Suchard's liquid assets, boosted in 1988 by a SFr476m ($334.5m) profit from the sale of its Rowntree shares, fell from more than SFr1bn to SFr651m, largely as a result of re-organising the European business into six modernised centres.

Mr Jacobs warned in April that plans for global marketing called for increased investment over a very short period. Philip Morris said on Friday that it was planning long-term investments in the company.

Over the weekend, analysts' opinions appeared to be converging to the view that the US consumer products giant had brought off a remarkable coup by persuading Mr Jacobs to sell his controlling stake, thereby acquiring for a net cost of $3.8bn Europe's biggest roasted coffee operation and second biggest chocolate and confectionery business.

Under the deal, Mr Jacobs is buying back for an undisclosed sum companies which contributed some SFr1.4bn of Jacobs Suchard's SFr6.7bn ($4.8bn) turnover last year. But these units include E. J. Brach, the US confectionery business, which posted a $50m operating loss in 1989.

Even if Van Houten, the bulk chocolate and commodity trading company with 1989 sales of SFr735m which remains with Mr Jacobs, gives a reasonable return, Philip Morris is buying a European coffee and chocolate business with a turnover of more than SFr5bn which generated the larger part by far of Jacobs Suchard's SFr275m net profit last year.

The deal has aroused some mortification in Switzerland. Philip Morris's tender offer to the minority shareholders, equivalent to around 16 times current earnings, is regarded as notably less generous than the sums paid by Nestlé for its recent foreign acquisitions.

The Zurich Stock Exchange announced an inquiry into possible insider dealing in Suchard's shares before Friday's announcement. The trade, transport and food workers' union expressed its indignation that Mr Jacobs had secured such a comfortable profit, after "milking the best cows in the shed" – the Swiss Suchard and Tobler chocolate companies he bought in 1982.

# Insurer to raise FFr2.44bn with share issue

**By George Graham in Paris**

GROUPE des Assurances Nationales (GAN), the French state-owned insurance company, is to raise FFr2.44bn ($428m) of fresh equity through an issue of new shares, with attached warrants which will allow it to raise a further FFr1.23bn over the next 3½ years.

GAN is the second state insurer to take advantage of new legislation allowing it to float up to a quarter of its capital on the market.

A FFr10.5bn capital increase, by Union des Assurances de Paris (UAP), France's largest insurance group, was not well received but GAN has had the issue underwritten.

Each GAN share with one attached warrant is priced at FFr2,150. Every two warrants give the right to subscribe to one new share at the same price.

The domestic syndicate is led by Banque Nationale de Paris and Lazard, and the international tranche by Paribas and BNP Capital Markets.

# Swedish bank profits up 30% to SKr1.65bn

**By Robert Taylor in Stockholm**

SVENSKA Handelsbanken, one of Sweden's top three commercial banks, recorded a 30 per cent growth in its group operating profits over the first four months of the year, it announced yesterday, with a rise to SKr1.65bn ($272m) from SKr1.26bn.

It achieved a 24 per cent rate of return compared with 21.6 per cent for the same period of 1989. Total receipts went up by 26 per cent to SKr3.214bn.

The results include those from Skanska Banken which became part of the bank from the beginning of the year after its acquisition by Handelsbanken.

The Gota group has also announced strong results for *the first four months of the* year, with a 35 per cent improvement in its operating income to SKr463m from SKr344m.

Its return on equity after tax *was 16.7 per cent.*

# Trump restructuring wins more support

**By Roderick Oram in New York**

*MR DONALD TRUMP* has won over more banks to the restructuring plan on which his cash-starved property, casino and airline empire will survive or fall.

Dresdner Bank is reportedly the last large institution balking at the terms. It holds $15m of a $75m loan Chase Manhattan Bank syndicated to help finance the Trump Tower, Mr Trump's Fifth Avenue headquarters skyscraper.

The German bank is believed to be insisting that the other banks buy out its share of the loan, an action they are refusing to take.

Mr Trump's lead bankers – Citibank, Chase, Manufacturers Hanover and Bankers Trust – are taking a hard line as a *crucial deadline approaches.* They say they would let the deal collapse rather than acquiesce to Dresdner. The pact would give Mr Trump $65m to help pay overdue loan and *bond interest.*

Mr Trump has until midnight tomorrow to make the overdue bond payments. If he does not, he will be declared in default, which would jeopardise his ownership of the Trump Castle casino and the licences for his other two Atlantic City casinos.

Two bondholders filed a suit against him on Friday alleging he had misled investors about his financial condition. It is the second bondholder suit filed this month.

Three Japanese institutions – Mitsubishi Trust and Banking, Dai-Ichi Kangyo Bank and Sumitomo Bank – have tentatively agreed to join in the new financing after fighting against the terms all last week.

But in addition to Dresdner, *a few other small banks are* also holding out. Mr Trump said on Friday he was "confident that the handful of remaining banks will choose to join us to get this restructuring *deal put together.*"

## INTERNATIONAL CAPITAL MARKETS

UK GILTS

# ERM entices investors to the fair

THE SWINGS and roundabouts of London's currency and bond markets seem to have been swapped for a new range of fairground attractions.

The prospect of early entry into the exchange rate mechanism of the European Monetary System led investors in droves in the direction of sterling last week. The same prospect entranced the gilts market.

Sterling broke through the the key DM2.90 level to rise by 0.7 per cent on Friday, after encouraging trade figures and speculation about imminent entry to the ERM.

Sterling assets took on an added lustre as Mr John Major, the UK Chancellor, and Mrs Margaret Thatcher, the Prime Minister, adopted the same tone to make positive comments about joining.

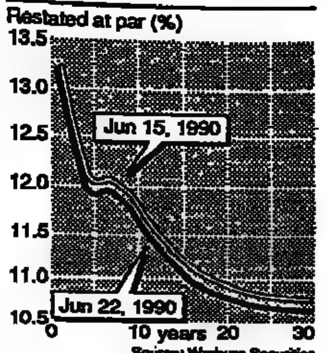
Gilts prospered as a result, and the long gilt future rose over a point in price to 86.23 on Friday, but closed the week at 85.20.

In the midst of the ERM euphoria, the government's proposals for a hard Ecu were largely ignored as being fanciful and having little technical impact on the gilts market. It was argued that bonds in a 13th currency, the hard Ecu, could hardly replace gilts on the grounds that the Government would have to continue to fund in the same currency it used for the bulk of its expenditure – sterling.

However, the latest piece of news about the state of the government's finances embodied in the public sector borrowing requirement for May reopened the debate about Ecu bonds and fresh gilt issuance – and caused the excitement generated by the obvious benefits of entry to the ERM to subside for a day at least.

**UK gilts yields**

Restated at par (%)




Source: Warburg Securities

The PSBR in May was much bigger than expected, at £1.7bn. This sharply higher deficit is being read as a stimulus for the Treasury to revise downwards its £7bn forecast for the public sector debt repayment (PSDR) for 1990-91.

Should this not happen in the Treasury's private internal summer forecast this week then it would certainly happen in the Autumn Statement. The government's total cash outlay in the first two months of the financial year was 23 per cent above the same period last year, at £33.1bn. Economists at investment houses remain mindful, as the Treasury is, of the risks involved in calculating the financial year's PSDR on the basis of two months' figures. But a consensus has emerged that this year could see a much smaller PSDR and even the end of the budget surplus.

With a zero outturn on a predicted £7bn PSDR, and with about £6bn gilts coming up for redemption, the Government would need to sell gilts again.

It could open the Bank of England's "locker" containing about £12bn of gilts bought in from market hands; but as these are in the main illiquid, high-yielding, non-indexed stocks, the Bank may be loath to reissue them.

Mr Peter Spencer, economist at Shearson Lehman Hutton, said the Bank is likely to have to sell £6bn to £7bn of gilts in the second half of the year in auctions. This would happen after spending ministers of the Cabinet made their demands.

Alternatively, the Bank could seize the Euro-initiative and issue Ecu bonds.

UBS Phillips & Drew has maintained for some time that Ecu financing would have one advantage over its sterling equivalent: it would be cheaper in terms of the amount the Bank would have to pay out on the coupon.

But this argument has lost some of its force as gilt yields have sunk and the pound risen, as the momentum towards ERM has gathered pace. Gilt yields have fallen by more than a full point and rendered gilts, for the moment, much less attractive than other bond markets and particularly West German bunds, according to Mr Robert Thomas, currency analyst at Greenwell Montagu.

Mr Spencer further points out that yields in the 10-year area are now closing in on those of, for example, French OATs, which are only 180 basis points higher. But the fact remains, and it is frankly admitted by proponents of Ecu bonds, that an Ecu issue does not directly affect the sterling financing of the UK Government.

So, if new issues are announced in the Autumn Statement, they will be of good, old-fashioned gilts, economists conclude.

Two things, then, threaten to mar the fun of the fair for the gilts market. First is the prospect of new issues in the autumn, which would depress prices – and prevent the market rising simply because of stock shortages.

More threatening than the prospect of new issues, however, is the realisation that bond yields have come down too quickly at a time when UK headline inflation remains obstinately high, and rising.

"From a purely domestic perspective, the gilt market looks on very high ground," Warburg commented. The yield curve is still steeply inverted; but yields on short-term bunds are too low for comfort. Bonds maturing in 1991, for example, are assuming rapid interest rate cuts, to show a yield under 13 per cent. These assumptions, given the UK's intractable economic problems, are looking suspiciously rosy – and the gilts market could soon return to its swings and roundabouts.

**Rachel Johnson**

US BONDS

# Heavy auction schedule dominates

WITH THE Treasury selling securities every day but Friday, this week could be something of a slog for the US money markets unless some juicy rumour or external surprise livens up the action.

The auction schedule is heavy with $47.45bn of paper to be sold ranging from three-month bills to four-year notes. The two-year notes alone will set a record at $11.25bn, a harbinger of even bigger demands the Treasury will make on the market during the rest of the year.

Dealers are cautious but not worried about this week's sales. Bills are usually absorbed without drama and the notes should appeal to retail investors, particularly after last week's small rise in interest rates.

The market is likely to continue to mark time, waiting for the meeting on July 2 and 3 of the Federal Reserve's open market committee, the July 4 Independence Day holiday and the July 6 release of June's employment data. Any market participant eager for thrills better plan them for their own time on the 4th. Public events that week should be dull.

Just about the last thing the open market committee is likely to do is to vote to ease monetary policy. The data no longer justify it and Mr Alan Greenspan, the Fed chairman, seems content with current conditions.

He told the Senate Banking Committee last week that there was no credit crunch in sight, as some members of the Bush Administration have been arguing to bolster their case for lower interest rates. Personal and consumer credit loans are weak but real estate and home equity loans outstanding have accelerated in recent weeks. Moreover, interest rate spreads have not widened as they usually do during credit crunches to reflect increasing risks.

Still, he did allow that a squeeze could develop in certain unfavourable circumstances. "He sounded a bit more worried than two weeks ago," said Ms Maria Ramirez who runs her own money market analysis firm.

The spectre of the upcoming auctions had made the market a little defensive last week, pushing down prices for the first three days. Despite a little fillip in the final two sessions, the price of the Treasury's benchmark 30-year bond was off almost ¾ point on the week.

Beside the impending auctions, there was disappointing news as well, such as the latest Beige Book on economic conditions around the Federal Reserve regions. There seems to be very little easing in the underlying inflationary pressures, though they are hardly strong anyway.

Further bad news came in the form of the Federal Government budget deficit – actual and forecast. In May it zoomed to $42.55bn from $25.43bn a year earlier. The Congressional Budget Office raised its forecast for the deficit this fiscal year ending September by $14bn to $195bn. Next year the deficit is likely to be $232bn. Both figures include the money the Resolution Funding Corp needs to raise for the thrift bail-out.

As recently as January the Administration had forecast this year's deficit (minus Refcorp) at a mere $61bn. Now it is talking of $159bn (minus Refcorp). Odds are very long on Congress and the Administration agreeing on a budget-cutting package this summer. They will probably rely instead on the oldest trick in the book – move the targets. Revising upwards the mandatory deficit reduction goals of the Gramm-Rudman law would neatly solve the political problems, if not the economic ones.

In addition, the market digested a revision in first-quarter gross national product growth to an annual rate of a real 1.6 per cent from 1.3 per cent. This shifted expansion from below to within the Fed's growth target, giving yet another reason for no easing in monetary policy.

The fact that the markets did not respond to this news was readily explained by Griggs and Santow, money market economists. Dealers had to sit tight because of long positions.

So stuck was the market it saw no flight to the relative security of government paper when the stock market fell apart on Monday and Friday. The Dow Jones Industrial Average lost nearly 79 points in the week from its freshly set record of 2,935.89.

Though the government side of the market was sombre, the corporate side was lively – in the credit rated and junk bond sectors. Some 13 new corporate issues were launched for a total of $4.3bn, including a raft of asset-backed securities.

As is so often in these debt-chastening times, junk bonds provided the greatest excitement. But for once it was to the good. Prices and trading in the better-risk issues picked up smartly following the news that RJR Nabisco was going to fix its bad bonds and strengthen its balance sheet a bit. Its own bonds, market bellwethers, led the rally as investors believed RJR was going to "do the right thing."

Its central problem is that it has to reset by next April the coupon on two payment-in-kind issues so they trade at par. So unsure had investors been of the company's financial performance, they had driven prices of the $6bn of paper down to levels at which RJR would have to reset at close to a 20 per cent coupon, devouring even more of its cash flow.

Though RJR is very vague on what it will do, it is likely to buy back around $3.5bn face value of the bonds. To do so and to refinance some bank loans, it reportedly wants to borrow $2.25bn of fresh bank loans, issue $1.5bn of convertible preferred shares and collect another $1.7bn of equity from the leveraged buyout funds of Kohlberg Kravis Roberts, its majority owner.

The troublesome bonds enjoyed a knee-jerk rise on the news, making the reset look more comfortable. But more thoughtful commentators were full of questions, if not some admiration that Mr Henry Kravis could solve his reset problem with merely good intentions.

**Roderick Oram**

### US MONEY MARKET RATES (%)

| | Last Friday | 1 week ago | 4 wks ago | 12-month High | 12-month Low |
|---|---|---|---|---|---|
| Fed Funds (weekly average) | 8.19 | 8.25 | 8.31 | [illegible] | 8.00 |
| Three-month Treasury bills | 8.00 | 7.93 | 7.99 | 9.11 | 7.20 |
| Six-month Treasury bills | 8.02 | 8.02 | 8.16 | 9.37 | 7.18 |
| Three-month prime CDs | 8.27 | 8.24 | 8.27 | 10.35 | 8.18 |
| 30-day Commercial Paper | 8.22 | 8.15 | 8.10 | 9.95 | 8.05 |
| 90-day Commercial Paper | 8.12 | 8.13 | 8.10 | 10.05 | 8.15 |

### US BOND PRICES AND YIELDS (%)

| | Last Fri | Change on wk | Yield | 1 week ago | 4 wk ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 99⅞ | -¼ | 8.52 | 8.47 | 8.70 |
| 20-year Treasury | 106⅛ | -⅜ | 8.60 | 8.53 | 8.77 |
| 30-year Treasury | 102⅞ | -½ | 8.47 | 8.42 | 8.66 |

Money supply: In the week ended June 11, seasonally adjusted M1 fell $800m to $807.6bn

### NRI TOKYO BOND INDEX

| December 1983 = 100 | 21/6/90 | Average yield (%) | Last week | 12 wks ago | 26 wks ago |
|---|---|---|---|---|---|
| | | PERFORMANCE INDEX | | | |
| Overall | 146.25 | 7.00 | 146.40 | 142.05 | 147.35 |
| Government Bonds | 144.07 | 6.83 | 144.52 | 139.86 | 147.21 |
| Municipal Bonds | 148.43 | 7.02 | 148.40 | 143.39 | 148.91 |
| Govt.-guaranteed Bonds | 150.72 | 7.08 | 150.58 | 145.66 | 150.46 |
| Bank Debentures | 143.27 | 7.13 | 143.20 | 139.50 | 141.24 |
| Corporate Bonds | 148.73 | 7.31 | 148.54 | 145.73 | 150.60 |
| Yen-denom. Foreign Bonds | 154.18 | 7.60 | 153.96 | 151.75 | 156.39 |
| Government 10-year† | 6.64 | – | 6.53 | 6.83 | 5.63 |

† Estimated par yield

Source: Nomura Research Institute

# Issue of $30m for Miwon

THE market for international share offerings in South Korea was reopened for the first time since February last week when Morgan Stanley and Daishin Securities launched a $30m issue for Miwon Company, a foods group, writes Deborah Hargreaves. The shares, which have a 15-year maturity, are convertible into non-voting preference shares. They carry a coupon of 1¾ per cent, a conversion premium of 50 per cent over the previous five-day trading average.

### FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT — Issued | Bid price | Chg on week | Yield

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Latest prices at 6.15 pm on June 22

# Police asked to look into TVS bid allegation

By Jane Fuller

MR PETER Clark, managing director of Media Ventures International, has contacted the police about a document which alleges that he is putting together a consortium to bid for TVS Entertainment, the ITV franchise holder for the south of England.

He said the document, leaked to a Labour MP, was bogus. "I am not about to raid TVS with Silvio Berlusconi (Italian media entrepreneur) and a South African businessman whom I have never spoken to."

Mr Clark, a former joint managing director of Telso Communications, a TVS subsidiary, said that both he and his company owned shares in TVS, but he was not trying to put together a takeover consortium.

Another name mentioned in the mystery document is that of Mr Arthur Price, a founder of MTM, the US television production company which TVS bought for about £190m in July 1988. Mr Price resigned as president and chief executive of MTM late last year.

TVS has had its profits sapped by MTM – a loss of £8.1m was made on US production in the 14 months to December 31. Its share price has fallen from a 1988 high of 362p to a low of 87p this year. Friday's closing price was 97p.

It is seen as one of the ITV franchise holders which may attract a bid after the Broadcasting Bill becomes law this autumn.

TVS has asked its lawyers and financial advisers to look into the suggestion that a bid is brewing. It is also issuing 212 notices to institutions to try to identify buyers of its shares. It stressed that under its articles no shareholder was allowed to have more than a 10 per cent stake.

## Alpine shareholders' funds hit by heavy provisions

AFTER MAKING heavy provisions in the 1989 results, Alpine Group has seen the value of shareholders' funds fall to £405,000, which is less than half the issued capital.

Accordingly, the directors are calling, under the Companies Act, an EGM for July 30 to consider whether any further steps should be taken to deal with the situation.

The 1989 results showed turnover of this soft drinks group marginally ahead at £10.35m (£9.57m), and that generated a little changed loss of £996,000 (£987,000). But providing £1.91m for rationalisation and the transition from employed to franchised sales rounds pushed the pre-tax deficit to £2.9m (£1.26m) and the loss per share to 14.36p (5.39p).

Although the losses continued, the year marked a significant turning point for the company, the directors said. In January full licensed production of the Britvic brands started and provided sufficient additional volume to enable Alpine Soft Drinks (UK) to eliminate finally its non-viable employed round structure. Britvic products are sold only through self-employed agents.

The directors were of the opinion that the ongoing core business was now viable and that the loss had been stemmed, but results for the first half of the current year were not likely to exceed break-even. The group was now better placed to pursue growth through acquisition.

Mr Andrew Greystoke intimated in March that he would give up the chairmanship. He has now tendered his resignation and it was accepted: Mr Keith Goldie-Morrison will take over late next month.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- Gestetner, Westminster Scaffolding.
Finals- Abercorn, Amber Industrial, Wellman, Sentinel.

FUTURE DATES

| | |
|---|---|
| Interims- | |
| General Cons Inv Trust | July 18 |
| Trusthouse Forte | Sept 2 |
| Wiltshire Brewery | June 28 |
| Finals- | |
| Assoc. British Eng | July 3 |
| BS | |
| Broad Street | July 17 |
| Brown & Tawse | July 4 |
| Christie Group | July 10 |
| Farepak | July 3 |
| Moorgate Inv Trust | July 18 |
| Wyndham | June 28 |

# Eurocamp for main market with expected £50m value

By Clare Pearson

EUROCAMP, which claims to be the market leader in self-drive camping holidays in Europe, expects to come to the main market towards the end of the year via an offer for sale to value it at about £50m.

Lazard Brothers, the company's financial adviser, expects Eurocamp to offer about £20m worth of shares to the public.

The company, established in 1973 and part of Combined English Stores prior to that company's acquisition by Next, the retail group, effected a management buy-out in 1988.

It increased sales by £10m to £39.7m in the year to end-October 1989. Operating profits during that 12-month period rose "significantly" to about £5.8m. It expects further improvements in its trading position in 1990.

Cheshire-based Eurocamp believes it has a stable geographical spread of business. Its biggest sources of business are Eurocamp UK, the self-drive camping holidays to Europe operation, which accounts for about 50 per cent of sales, and its Holland and Germany-based operations, which account for about 20 per cent.

Eurocamp is expected to announce this week that Mr Tom Neville, 58, formerly finance director of Vickers, the engineering group, is to become its non-executive chairman.

This follows the resignation of Mr Gordon Dunlop, former finance director of British Airways, who held the post of chairman for just a few weeks earlier in the year.

Lazards said Mr Dunlop had indicated he felt he ought to resign due to pressure of other commitments.

## SW Wood £2m in red and dividend cut

In the second half of the year ended March 31 1990, SW Wood Group stemmed the rate of its losses, and limited the full year deficit to £2m on turnover of £44.37m.

That result compared with a profit of £2.2m on £74.52m in the previous year.

Following the cessation of steel trading and closure of Braemar because of a collapse in steel prices in the Far East, much time was spent completing an orderly withdrawal from that business, the directors said.

They had made a full review of the continuing businesses, which made a profit of £52,000 (£1.46m), and had spent money in rationalising the remaining aluminium and scrap operations.

Loss per share was 19.3p (earnings 21.6p). There is a single dividend of 0.1p, compared with 5p (interim 2p and final 3p).

## FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Dartmoor Inv Trust (Ord & 6¼pc RPI-Lnk Db 2005) (Section: Investment Trusts).

# It's not only package tours...

## Peter Bruce explains how British industry has taken to Spain

IF EASTERN Europe has officially become Western Europe's favourite investment target, someone has forgotten to tell British industry. In the last 18 months, the British have become the biggest direct investors in Spain, knocking aside West Germany and France and turning an investment profile once dominated by share purchases on its head.

The £97m acquisition last week by BPB Industries of Spain's biggest plasterboard manufacturer, Inveryeso, marks just the latest in a series of forays into Spain by Britons suddenly unafraid to make long-term commitments to a market they once feared was too complex and possibly too hostile.

In the past, a rapidly changing legislative environment, high tariff barriers and taxes and understandable worry that potential Spanish targets would be drumming their fingers on 'Sick Senor' headlines in the British popular press as they walked through the door, have combined with weak UK industrial profitability to keep British companies away.

No Longer. According to Bank of Spain figures published at the beginning of the year, direct investment from the UK – that is acquisition of 20 per cent or more of Spanish companies totalled Pta148bn in 1989, well above the Pta124bn from France and just Pta81bn from West Germany, which still has the biggest foreign industrial presence in Spain, mainly in cars and chemicals.

According to the figures, Britain remains the biggest source of both portfolio and property investments in Spain, but mainly because many share and property deals are made by foreigners through British brokers or agents.

While British banks such as Barclays, Natwest and Lloyds have old and large investments in Spain, the recent arrival of other UK financial service groups and medium sized industrial companies has become marked.

Spain, say local investment bankers, is still relatively cheap, despite the strength of the peseta, compared to other modern European economies. And while some British companies may make investments here for reasons of prestige, many parts of the Spanish market are far from saturated.

British insurers have suddenly realised that life insurance in Spain is very poorly developed. In 1983 Spaniards spent Pta11,000 each on insurance; by now, that total is approaching Pta50,000 a year.

Little surprise, then, that Norwich Union paid £200m last month for Plus Ultra, a Banco Bilbao Vizcaya insurance subsidiary. Scottish Provident recently purchased Equity & Law's small Spanish subsidiary after E&Ls new French owners decided their own Spanish operation clashed with it. Friends Provident recently bought 30 per cent of Kairos.

But manufacturers such as BPB, attracted mainly by obvious growth potential in sectors like construction, motor components and foodstuffs, are making important purchases too.

In late 1988 British Vita bought Icoa, an important Basque supplier of foam moulding to the car industry, with sales of nearly £40m a year for an undisclosed sum. Senior Engineering last year took over Traterh, a heat treatment group servicing the motor industry for Pta67m and promised to inject another Pta135m to modernise it.

The Cookson Group last year purchased all of the Figueroa ceramics and metals refining group; Reckitt & Colman acquired the Nenuco baby toiletries group in Catalonia; Cadbury Schweppes paid more than £40m to buy the Tri-Naranjus and Vida drinks groups, and Marks and Spencer opened its first store in Madrid after entering into a joint venture with the Cortefiel group.

Mountleigh, meanwhile, has come to lean heavily on its Galerias Preciados deparment store chain for profits.

Plessey recently spent Pta1.5bn buying 49 per cent of the Sice y Caerail traffic control equipment group; Rolls


Royce is leading a Basque consortium to make aero-engines for the European Fighter Aircraft to be bought by the Spanish; Steetley has bought five quarrying companies around Madrid for Pta19bn, and a further 80 per cent of Ariberia, a construction equipment group; and the Parkfield Group has spent £4.4m buying an aluminium wheels business.

The list, in the last two to three years, is long. Tate & Lyle, Polly Peck, Racal, Newman Tonks, T&N, British Steel, GKN and Courtaulds have all made substantial Spanish acquisitions in that time.

And there may be more to come. A White Paper published earlier this month on reforming income tax suggests not only dramatically cutting the top rate at which capital gains in Spain are taxed, from 56 per cent to 35 per cent, but eliminating the tax altogether on assets bought before 1978.

This means that hundreds of family companies who faced problems in a more competitive market or difficulties in succession, may now be able to sell out without fear of having to hand over half the proceeds to the State.

Although big acquisitions grab the headlines, smaller Spanish companies with established markets have become bread and butter business to the increasing number of foreign and Spanish investment bankers in Madrid.

Better capitalised medium sized British companies, perhaps more so than their French or West German rivals, will be well placed to pick up targets if, or rather when, the tax reform goes ahead.

In financial services at least, the French appear to be opting for alliances with large Spanish institution and the West German mittelstand, Spaniards believe, are likely to devote most of their energies in the next few year to developing business in the east.

Some acquisitions do go wrong. BUPA, the private health insurance group, has had rough time absorbing some Pta2.5bn in hidden, undeclared losses at Sanitas, a Spanish competitor it bought in 1988.

But the stories are mostly agreeable. British arrivals are discovering that Spaniards think quickly and work hard. "The Spanish are very creative," remarked Mr Clifton Melvin, who heads the Scottish Provident operation in Madrid, soon after his arrival. "They like a challenge and they are very achievement orientated. They work ridiculously long hours."

Senior Engineering, like many British buyers of existing companies, left Traterh's Spanish managers holding a stake in the company as an incentive. "We didn't want to go in owning the whole show," says a Senior executive, "we believe in locals running the companies."

Signs that Spain's economy has begun to slow since the peseta's entry into the European Monetary System last year, plus tight credit and high interest rates, do not appear to be putting off the British.

"We are trying to move from an excessive situation to a normal one," says a senior Finance Ministry official in Madrid. Normal, in Madrid, would be gross domestic product growth of about 4 per cent a year and for many foreign investors, that would be just fine.





FINANCIAL TIMES STOCK INDICES

| | June 22 | June 21 | June 20 | June 19 | June 18 | June 15 | 1990 High | 1990 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 80.39 | 80.19 | 79.85 | 79.25 | 79.47 | 79.76 | 84.20 | 74.13 | 127.4 | 49.18 |
| Fixed Interest | 88.67 | 88.44 | 88.30 | 88.36 | 88.48 | 88.26 | 92.91 | 83.80 | 105.4 | 50.53 |
| Ordinary | 1913.0 | 1908.3 | 1903.4 | 1907.4 | 1911.9 | 1925.9 | 1968.3 | 1653.6 | 2008.6 | 49.4 |
| Gold Mines | 171.0 | 170.3 | 169.6 | 172.3 | 170.7 | 167.9 | 378.5 | 167.9 | 734.7 | 43.5 |
| FT-Act All Share | 1171.96 | 1168.67 | 1169.61 | 1168.35 | 1169.29 | 1178.39 | 1226.83 | 1043.16 | 1238.57 | 61.92 |
| FT-SE 100 | 2378.5 | 2370.3 | 2371.2 | 2369.7 | 2378.5 | 2392.3 | 2463.7 | 2103.4 | 2463.7 | 986.9 |

# DIARY DATES

## PARLIAMENTARY

### Today

**Commons:** Opposition debate "The price of electricity privatisation."

Motion on the Police (Amendment) Regulations.

**Lords:** Social Security Bill, report.

*National Health Service and Community Care Bill*, third reading.

**Select committee: Public Accounts:** subject, annual major projects statement. Witness: Sir Peter Levene, MoD. (Room 15, 4.30 p.m.)

### Tomorrow

**Commons:** Opposition debates "Railway policy and the economic and social interests of the nation" and "British development aid and the environment."

Pakistan Bill, remaining stages.

**Lords:** Agricultural Holdings (Amendment) Bill, third reading.

Road Traffic (Temporary Restrictions) Bill, report.

Environmental Protection Bill, committee.

Horses (Protective Headgear for Young Riders) Bill, report.

Committees on private bills: Hythe, Kent, Marina Bill (Room 6, 10.30 a.m.). River Tees Barrage and Crossing Bill (Room 6, 11 a.m.)

### Wednesday

**Commons:** Timetable motion on and consideration of Lords amendments to the NHS and Community Care Bill.

**Lords:** Australian Constitution (Public Record Copy) Bill, Motor Trade (Consumer Protection) Bill, *Computer Misuse* Bill, third readings.

Food Safety Bill, consideration of Commons amendments.

Environmental Protection Bill, committee.

Rights of Way Bill, report.

Social Security Bill, report.

**Select committees:** Environment: subject, climatological and environmental effects of destruction of rain forests. Witness: Timber Trades Federation. (Room 21, 10.30 a.m.)

Foreign Affairs: subject, policy towards southern Africa. Witnesses: Mrs Lynda Chalker, Overseas Development Minister, and officials. (Room 15, 10.30 a.m.)

Agriculture: subject, BSE. Witnesses: Mr John Gummer, Agriculture Minister, Mr Stephen Dorrell, junior Health Minister. (Grand Committee Room, Westminster Hall, 10.45 a.m.)

Parliamentary Commissioner for Administration: subject, Commissioner's report for 1989. Witness: Mr W.K. Reid. (Room 19, 10.45 a.m.)

Energy: subject, safety in coal mines. Witnesses: Health and Safety Executive, Federation of Small Mines of Great Britain. (Room 8, 11 a.m.)

Education: subject, prison education. Witnesses: Association of County Councils, Association of Metropolitan Authorities. (Room 18, 4.15 p.m.)

Foreign Affairs: subject, policy towards southern Africa. Witnesses: Professor Gutteridge and Professor Spence. (Room 21, 4.15 p.m.)

Home Affairs: subject, effect of prison disturbances on building programme. Witness: Mr David Mellor, Home Office Minister. (Room 15, 4.15 p.m.)

Public Accounts: subjects, Review of performance of Industrial Development Board for Northern Ireland and DHSS control of hospital-based medical and nursing manpower. Witnesses: Mr A. Hopkins, Industrial Development Board for Northern Ireland, Mr J.G. Hunter of Social Services Management Executive. (Room 16, 4.15 p.m.)

Social Services: subject, public spending on social security. Witness: Mr Tony Newton, Social Security Secretary. (Room 8, 4.15 p.m.)

Trade and Industry: subject, trade with EFTA. Witness: Lord Trefgarne, Minister for Trade. (Room 20, 4.15 p.m.)

Transport: subject, urban public transport: the light rail option. Witnesses: Pedestrian Association, Royal Town Planning Institute. (Room 17, 4.25 p.m.)

Committees on private bills: Hythe, Kent, Marina Bill (Room 5, 10.30 a.m.). River Tees Barrage and Crossing Bill (Room 6, 10.30 a.m.)

### Thursday

**Commons:** Debate on the scrutiny of European legislation.

**Lords:** NHS and Community Care Bill, consideration of Commons reasons or amendments.

Motion calling on Government to withdraw the Draft Education (Student Loans) Regulations.

Draft Education (Student Loans) Regulations, motion for approval.

Care of Cathedrals Measure, motion for approval.

Licensing (Low Alcohol Drinks) Bill, committee.

Consumer Guarantees Bill, report.

**Committee on private bill:** River Tees Barrage and Crossing Bill. (Room 6, 10.30 a.m.)

### Friday

**Lords:** British Nationality (Hong Kong) Bill, second reading.

Motion for approval on the Insurance Companies (Amendment) Regulations 1990.

## FINANCIAL

TODAY

COMPANY MEETINGS-

North British Canadian Inv., 29 Charlotte Square, Edinburgh, 12.30
The Savoy Hotel, The Strand, W., 11.30
Stratton Inv. Tst., 155 Bishopsgate, E.C., 2.30
WPP, The Savoy Hotel, The Strand, W., 12.00

BOARD MEETINGS-

Finals:
Aberfoyle
Amber Industrial

[illegible]

DIVIDEND & INTEREST PAYMENTS-
African Development Bank Sub. Flg. Rate Nts. 1996 5429.72
American Cyanamid 33.75cts
Anglo-Scandinavian Inv. Tst. 1.1p
Ash & Lacy 8% Deb. Stk. 4pc
Asprey 6½% Prf. 2.275p
Do. 9¾% Prf. 4.875p
Avon Rubber 4.9% Prf. 2.45p
Bampton Hldgs. 8¼% 1st Mtg. Deb. 1988/93 4.125pc.
Do. 8¼% Uns. Ln. 2002/07 4.125pc.
Bowthorpe Hldgs. 7% Uns. Ln. 1990/95 3.5pc.

[illegible]

Mid-Southern Water 2.45% (Fmly. 3½%) Perp. Prf. 1.225p
Do. 6.25% Red. Prf. 1991 3.125p
Do. 7% Red. Prf. 3.5p
Do. 9% Red. Prf. 1990 4.5p
Port of London Auth. 3% A 29/99 1.5pc.
Portals Hldgs. 6% Prf. 2.1p
Powell Duffryn 4⅞% Prf. 0.83125p
Ratners Cnv. NV Red. Prf. 2.925p
Sears 7½% Prf. 2.625p
Do. 7% A Prf. 2.45p
Do. 12½% Prf. 4.375p
South Australian 3% Cons. Ins. 1916 1.5pc.

[illegible]

Midland Bank 10¾% Sub. Uns. Ln. 1993/98 5.375pc.
Do. 7½% Sub. Uns. Ln. 1983/93 3.75pc.
More O'Ferrall 10% 2nd Prf. 5p
Mucklow (A & J) Group 7% Prf. 2.45p
Murray Intl. Tst. 4% Deb. 2pc.
Nat. West. 9% Sub. Uns. Ln. 1993 4.5pc.
Newey 5% Prf. 1.75p
News Intl. 7% 1st Prf. 2.45p
Do. 8% 2nd Prf. 2.8p
Nexus Corp. 7½% 1st Mtg. Deb. 88/90 3.75pc.
Do. 7¼% 1st Mtg. Deb. 1987/92 3.675pc.

[illegible]

# CONSTRUCTION CONTRACTS

## Channel Tunnel rail scheme

KIER MANAGEMENT is on site ready to start construction on the £75m North Pole depot for British Rail's channel tunnel project.

The depot, located in west London, will service the purpose-built fleet of high speed passenger trains and on completion in 1992, will be used for rolling stock from national railway companies in Britain, France and Belgium.

Kier was awarded the construction management contract last October and appointed as co-ordinating contractor responsible for management of both the design and construction phases. It established a special project office at Croydon to integrate a strong professional team with BR's own project staff, and has ensured that the design and pre-construction have kept to the fast-track schedule.

Initial works contracts include enabling works and new bridges together with over nine kilometres of high security fencing to enclose the long narrow site.

Kier Management is one of four principal subsidiaries of Beazer National Construction.

## Major hospital development in Florida

FEDERAL CONSTRUCTION COMPANY, the Trafalgar House company based in St. Petersburg, Florida, has been awarded contracts worth in excess of £20m.

The most recent is valued at around £6.5m for the expansion of Largo's Sun Coast Hospital which will include a 35,000 sq ft two-storey pavilion for a surgical suite, emergency services department, imaging department and foyer with patient registration facilities.

The plans also include renovation of existing departments and laboratories and construction of a physical plant energy centre.

Other projects include a £1.06m contract for renovation of the grandstand at the Tinker Field baseball stadium; a £3.6m project on the Pinellas Bayway in St. Petersburg for a five-storey addition to the College Harbour retirement home is in progress as is another five-storey facility valued at £8.3m for the Sylvester Cancer Center at the University of Miami.

## £36m Buckinghamshire motorway plan

A motorway widening project is included in contracts worth more than £50m awarded to TARMAC CONSTRUCTION.

Work has just started on a contract, worth about £36m, to widen the M40 between junctions 4 and 5 in Buckinghamshire.

It involves widening the motorway from two to three lanes for 12.5 kilometres; demolishing and rebuilding seven overbridges, one underbridge and one footbridge; and providing lighting, signs and signals, noise barriers and landscaping.

The contract, awarded to the company's major projects division by the Department of Transport, is being carried out under an incentive contract with a likely completion date in the autumn of next year.

Tarmac Management, the management contracting company, has been given a £2.5m contract for fitting-out the seventh floor of a building in Bishopsgate, London, for the Bank of Scotland.

Other projects include a three-storey office development at Bracknell, Berkshire, for Rosehaugh Estates (£2.1m) and refurbishing the cattle market at Chichester, for Chichester District Council (£813,000).

Tarmac Construction's contract housing division has a number of contracts. The largest, at £4.5m, is for refurbishing two-storey flats on the Ashcroft Estate at Nechells, Birmingham, for the Sanctuary Housing Association.

Other awards include interior improvements to homes at Belle Isle, Leeds, for Leeds City Council (£1.6m); and refurbishing flats at Provanhall for Glasgow District Council (£1.4m).

## £16m retail complex for Scotland

WIMPEY CONSTRUCTION SCOTLAND has been awarded a £16m contract to build a prime out-of-town retail development on the site of a former meat market near Aberdeen.

The Norco Retail Park will spread across an area of 300,000 sq ft providing two superstores and a DIY centre together with office facilities, an indoor bowling club and a number of smaller retail units.

Wimpey was awarded the three-phase contract last month by Caledon Park Development Management - acting as management developer for client Norco.

After first demolishing the buildings that had previously been home to the meat market, Wimpey started work on the core of the development - the 88,000 sq ft superstore and other smaller units. Structural steelwork on this phase is currently being erected.

Following this, phases two and three will involve construction of a 75,000 sq ft Homeworld store, a 35,000 sq ft DIY store, 20,000 sq ft of non-food retail warehousing and the Norco bowling club, each of which will be partially fitted out and serviced by Wimpey.

Grampian District Council has called for a number of road improvements to be included as part of the scheme to help cope with the additional traffic load which the new park will create.

Wimpey's contract therefore includes the realignment of an access road and construction of a new roundabout to avoid problems as traffic comes in and out of the 1065 space car park.

## New facilities at Birmingham theatre

LINFORD BUILDING has been appointed main contractor for an extension to Birmingham Repertory Theatre.

The Cannock-based contractor, which won the £2.7m award, will work with architects T. Walker & Partners in increasing the size of the theatre by a third.

A three-level 2,700 sq metre extension, featuring large areas of continuous structural glazing, will be added to provide a rehearsal studio, workshops, and training school together with accommodation for bars, restaurants and a hospitality suite.

Work will include alterations to the theatre, external services, drainage and access for vehicles. Scheduled for structural completion in March 1991, the extension will give the theatre the resources needed to work with one of the largest stages in Britain.



## Building by-pass

COSTAIN CIVIL ENGINEERING, a subsidiary of Costain E & C, has been awarded a £3.5m contract by the Cornwall County Council for the construction of the Canon Downs by-pass on the A39 Truro to Falmouth road.

The by-pass is of flexible construction, 1.6 kilometres long and includes 1.2 kilometres of dual carriageway with a central reserve safety fence. Two overbridges will be provided to Higher Devoran Farm and Tregye Road over the by-pass and a new roundabout will give access to Canon Downs village. The by-pass is due to be completed in September 1991.

Costain Construction, another subsidiary of Costain E & C, has been awarded a contract by Dysart Developments (Tyne and Wear) for the construction of two office blocks at the Newcastle Business Park, Tyne and Wear, for British Airways.

The design and build contract is for one three-storey and one four-storey office block with a gross floor area of 15,140 sq metres. The buildings are arranged around individual courtyards and linked by a pedestrian walkway at ground level.

The contract also includes the provision of access roads, drainage and services. Work is due to be completed at the beginning of April 1991.

## Hospital project

LAING SOUTHERN has won a brace of contracts, worth £8.4m, to boost facilities at the historic Kings College Hospital and improve homes on a Kennington estate.

Camberwell Health Authority has awarded the £5.2m contract for the work which will involve constructing a four-storey concrete frame building clad with stone and brickwork.

*The London Borough of* Lambeth has selected the company to carry out a £3.2m refurbishment contract at the Ethelred Estate in Kennington.

## Trade fairs and exhibitions: UK

**June 26-28**
Midland Secretary Show (081-868 4466)
NEC, Birmingham

**June 28-30**
Careers and Higher Education Fair - DIRECTIONS (081-940 5668)
Olympia

**July 5**
Health Show (081-783 0055)
Olympia

**July 11-15**
Wine Fair & Festival (0272 228630)
Bristol Exhibition Centre

**July 13-14**
Kensington Fashion Fair (081-742 2828)
Kensington Town Hall

**July 19-22**
International Helicopter Exhibition (081-773 3751)
Middle Wallop

**July 29-31**
Sun & Swimwear Exhibition (071-973 6401)
Marriott Hotel, London

## Overseas exhibitions

**June 25-29**
International Biotechnology Trade Fair – AMSTERDAM BIOTECHNOLOGY (071-495 7977)
Amsterdam

**June 26-30**
International Industrial Development Technology, Machinery and Equipment Exhibition - ITM (071-486 1951)
Kuala Lumpur

**July 3-6**
International Forestry, Log and Timber Technology Exhibition and Conference – INTERFOREST (081-940 4625)
Munich

**July 11-13**
International Professional Recording, Public Address and Duplication Exhibition – PRO AUDIO ASIA (0494 729406)
Hong Kong

**July 11-13**
International Jewellery, Gemstones & Timepieces Exhibition – JEWELTIME (0494 729406)
Tokyo

## Business and management conferences

**June 25-26**
FT Conferences: World gold conference (071-925 2323)
Venice

**June 25-26**
The Economist: Insurance: How an industry goes global (071-976 6565)
Royal Garden Hotel, London

**June 26-27**
American Metal Market/Paine Webber's World Steel Dynamics: Steel survival strategies V – Harnessing steel's technological revolution (US 212 741 4156)
Plaza Hotel, New York

**June 27**
London Chamber of Commerce and Industry: EC structural fund opportunities – a conference to examine specific project opportunities (071-248 4444)
City Conference Centre, London

**June 28**
The Conference Company: The road to the German information technolgy market – How UK based companies can kick off their marketing campaigns in Germany (071-486 4533)
Le Meriden, London

**June 29**
Federal Trust for Education and Research – Building a new Europe: the way to wider union (071-839 6625)
London

**July 2-3**
FT Conferences: North Sea Oil and Gas (071-925 2323)
Hotel Inter-Continental, London

**July 2-3**
Legal Studies and Services: Trading in technology with Eastern Europe (071-236 4080)
Portman Hotel, London

**July 3-4**
Quorum Training: Finance, Taxation and Law for Accountants and Company Secretaries (071-388 2044)
Marlborough Hotel, London

**July 9-10**
The Economist: International Investor Relations (071-976 6565)
Sussex

**July 9-11**
FT City seminar (071-925 2323)
Plaisterers Hall, London

*Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published*

# WORLD STOCK MARKETS

## AUSTRIA

| 1990 High | Low | June 22 | Price Sch |
|---|---|---|---|
| 5,285 | 2,885 | Austrian Airlines | 4,830 |
| 7,300 | 4,982 | Creditanstalt | 6,200 |
| 29,590 | 19,700 | Erste Allgemeine | 22,300 |
| 19,600 | 14,400 | Jungbunzlauer | 15,200 |
| 1,435 | 660 | Laenderbank | 1,220 |
| 14,230 | 8,350 | OeMV | 10,950 |
| 2,380 | 1,680 | Perlmooser | 1,950 |
| 1,218 | 885 | Radex | 1,215 |
| 3,400 | 2,230 | Reininghaus | 2,400 |
| 290 | 115 | Steyr-Daimler | 224 |
| 1,510 | 980 | Veitscher Mag | 1,135 |
| 770 | 425 | Verbund | 600 |
| 7,580 | 5,860 | Wienerberger | 6,100 |

## BELGIUM/LUXEMBOURG

| 1990 High | Low | June 22 | Price Frs. |
|---|---|---|---|
| 5,700 | 3,900 | Arbed | 5,300 |
| 3,520 | 2,800 | B.B.L. | 3,010 |
| 15,700 | 15,100 | Bank Intl a Lux | 15,500 |
| 15,000 | 14,650 | Banque Gen Du Lux | 14,700 |
| 37,000 | 32,000 | Banque Nat Belg | 33,500 |
| 2,470 | 1,865 | Barco | 2,400 |
| 16,650 | 14,025 | Bekaert B | 14,750 |
| 9,520 | 6,930 | Ciment CBR | 9,350 |
| 6,140 | 5,000 | Cobepa | 5,620 |
| 6,030 | 4,950 | Do. AFV 1 | 5,410 |
| 214 | 170 | Cockerill | 192 |
| 25,775 | 18,600 | Colruyt | 25,100 |
| 6,450 | 5,000 | Delhaize | 6,400 |
| 4,560 | 3,860 | EBES | 3,905 |
| 4,490 | 3,760 | Do. AFV 1 | 3,815 |
| 544 | 221 | Fabrique Nat | 240 |
| 1,408 | 1,194 | GIB Group | 1,370 |
| 1,398 | 1,072 | Do. AFV | 1,350 |
| 4,640 | 3,870 | GBL (Brux L) | 3,955 |
| 4,630 | 3,815 | Do. AFV 1 | 3,960 |
| 952 | 746 | Gechem | 864 |
| 930 | 702 | Do. AFV | 810 |
| 5,900 | 4,400 | Generale Bank | 5,250 |
| 6,100 | 4,655 | Do. AFV 1 | 5,190 |
| [illegible] | [illegible] | [illegible] | [illegible] |

## DENMARK

[illegible]

## FINLAND

[illegible]

## FRANCE

[illegible]

## FRANCE (continued)

| 1990 High | Low | June 22 | Price Frs. |
|---|---|---|---|
| 935 | 725 | Beghin-Say | 884 |
| 635 | 500 | Do Certs | 625 |
| 3,480 | 2,695 | Bongrain | 3,350 |
| 683 | 525 | Bouygues | 650 |
| [illegible] | 1,190 | CCIP | 1,370 |
| 235 | 163.3 | CMB Packaging | 191 |
| 3,780 | 3,065 | Carrefour | 3,549 |
| 215 | 128 2 | Casino | 131.5 |
| 649 | 489 | Cetelem | 580 |
| 1,376 | 1,001 | Chargeurs | 1,030 |
| 1,813 | 1,241 | Ciments Fr | 1,720 |
| 788 | 597 | Club Mediterranee | 608 |
| 432 | 351 | Cofimeg | 351 |
| 486 | 352 | Cogifi | 445 |
| 640 | 517 | CGE | 628 |
| 629 | 343 | Coparex | 575 |
| 262 8 | 213 5 | CCF | 229.5 |
| [illegible] | 1,219 | Cred Foncier Fr | 1,286 |
| 898 | 650 | Cred Lyonn (CI) | 817 |
| 1,591 | 1,183 | Credit National | [illegible] |
| 4,330 | 3,055 | Damart | 3,099 |
| [illegible] | 3,680 | Docks de France | 3,850 |
| [illegible] | 542 | [illegible] | 548 |
| 672 | 485 | Dumez S.A. | 603 |
| 2,750 | 2,015 | Eaux (Cie Gen) | 2,707 |
| 620 | 454 | Ecco | 567 |
| 1,083 | 880 | Electrofin're | [illegible] |
| 730 | 511 | Elf-Aquitaine | 684 |
| [illegible] | 406 | Do. Certs | 511 |
| 1,400 | 1,160 | Epeda-Bertrand | 1,170 |
| 3,020 | 2,400 | Essilor | 2,670 |
| 2,515 | 1,760 | Eternit (Fin) | 2,080 |
| 2,690 | 2,005 | Eurafrance | 2,030 |
| 2,440 | 1,731 | Eurocom | 2,300 |
| 108 2 | 90 | Euro Disneyland | 103.4 |
| 4,920 | 3,611 | Euromarche | 4,055 |
| 2,029 | 1,630 | Expr | 1,805 |
| 221 | 185.5 | Finextel | 190.8 |
| 1,120 | 815 | Fonciere Lyons | 1,100 |
| 2,700 | 2,240 | Fromageries | 2,352 |
| 1,715 | [illegible] | [illegible] | 1,660 |
| 1,160 | 850 | Gaumont (Soc N) | 1,090 |
| [illegible] | [illegible] | [illegible] | [illegible] |

## GERMANY (continued)

[illegible]

## GERMANY

[illegible]

## ITALY (continued)

[illegible]

## NETHERLANDS

[illegible]

## NORWAY

[illegible]

## SPAIN

[illegible]

## ITALY

[illegible]

## SWEDEN

[illegible]

## SWITZERLAND

[illegible]

## SOUTH AFRICA

[illegible]

## JAPAN

[illegible]

## AUSTRALIA (continued)

[illegible]

## HONG KONG

[illegible]

## AUSTRALIA

[illegible]

## MALAYSIA

[illegible]

## SINGAPORE

[illegible]

## CANADA

### TORONTO

Closing prices June 22

[illegible]

### MONTREAL

Closing prices June 22

[illegible]

## INDICES

### NEW YORK DOW JONES

[illegible]

### STANDARD AND POOR'S

[illegible]

### NEW YORK ACTIVE STOCKS

[illegible]

### TRADING ACTIVITY

[illegible]

### CANADA TORONTO

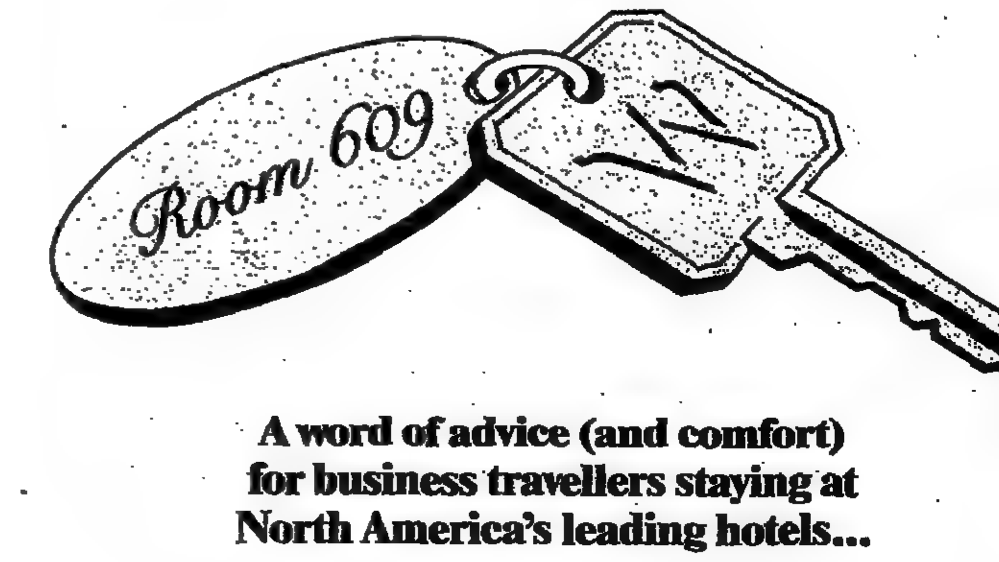
[illegible]

### TOKYO - Most Active Stocks

Friday June 22 1990

[illegible]





# FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

## AUTHORISED UNIT TRUSTS

## GUIDE TO UNIT TRUST PRICING

# FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

| Unit Name | Init Charge | Canc. Price | Bid Price | Offer Price | Yield Gr's | Citi-line |
|---|---|---|---|---|---|---|
| **Touche Remnant Unit Tst Mngt Ltd – Contd.** | | | | | | |
| TR Income Growth | 5¼ | 90.36 | 90.36 | 96.12 | 4.77 | 41530 |
| TR Income Monthly | 5¼ | 52.85 | 52.85 | 56.22 | 6.83 | 41531 |
| TR Japan Growth | 5¼ | 81.31 | 81.31xd | 86.32 | 0 | 41532 |
| TR Overseas Growth | 5¼ | 67.75 | 67.75xd | 72.33 | 0 | 41533 |
| TR Smaller Cos | 5¼ | 78.57 | 78.57 | 83.58 | 3.64 | 41534 |
| TR Special Ops | 5¼ | 85.96 | 85.96 | 91.44 | 4.31 | 41535 |
| TR Mgd Eq Plan Acc | 5¼ | 36.36 | 36.36 | 38.68 | 2.98 | 41536 |
| TR Mgd Eq Plan Inc | 5¼ | 34.09 | 34.09 | 36.26 | 2.99 | 41537 |
| TR Wwide Sp Sit Acc | 5¼ | 39.72 | 39.72 | 42.43 | 0 | 41538 |
| TR Wwide Sp Sit Inc | 5¼ | 39.68 | 39.68 | 42.39 | 0 | 41539 |
| *TR Pension Portfolio* | | | | | | |
| TR American Gwth ‡ | 6 | 29.24 | 29.63 | 31.41 | 0 | 46477 |
| TR Eur Sp Sits ‡ | 6 | 35.97 | 36.48 | 38.66 | 0 | 46478 |
| TR General Growth ‡ | 6 | 26.24 | 26.52 | 28.11 | 0 | 46479 |
| TR Global Tech ‡ | 6 | 30.13 | 30.53 | 32.36 | 0 | 46480 |
| TR Income Growth ‡ | 6 | 26.31 | 26.59 | 28.19 | 0 | 46481 |
| TR Japan Growth ‡ | 6 | 25.50 | 25.72 | 27.26 | 0 | 46482 |
| TR Mgd Equity ‡ | 6 | 28.09 | 28.16 | 29.85 | 0 | 46483 |
| TR Overseas Growth ‡ | 6 | 29.10 | 29.52 | 31.29 | 0 | 46484 |
| TR Smaller Cos ‡ | 6 | 18.58 | 18.75 | 19.87 | 0 | 46485 |
| TR Special Ops ‡ | 6 | 17.70 | 17.89 | 18.96 | 0 | 46487 |
| TR Stlg Liquidity ‡ | 6 | 26.49 | 26.96 | 28.08 | 0 | 46486 |
| TR Wwide Sp Sits ‡ | 6 | 32.34 | 32.83 | 34.80 | 0 | 46488 |
| **Trades Union Unit Tst Mngrs (1200)H** | | | | | | |
| NLA Tower, Addiscombe Road, Croydon 081-686 4355 | | | | | | |
| TUUT | 5 | 255.1 | 260.6 | 274.3 | 3.15 | 41540 |
| **Triton Fd Mngrs. Ltd. (1000)H** | | | | | | |
| Royal Ldn Hse, Colchester CO1 1RA 0206 764400 | | | | | | |
| Triton General | 5¼ | 169.0 | 171.7 | 182.7 | 3.34 | 41541 |
| **Tyndall Unit Tst Mngrs Ltd (1600)F** | | | | | | |
| 25 Bucklersbury, London EC4N 0800 373574 | | | | | | |
| Austral Value | 5¼ | 40.75 | 40.75 | 43.20 | – | 41580 |
| British Lion | 5 | 89.58 | 89.58 | 94.97 | 4.01 | 41548 |
| Accum Units | 5 | 94.66 | 94.66 | 100.35 | 4.01 | 41549 |
| Capital Defender | 5 | 37.36 | 37.36 | 39.61 | 11.02 | 41542 |
| Accum Units | 5 | 42.66 | 42.66 | 45.23 | 11.02 | 41543 |
| 1992 Eurogrowth Acc | 5¼ | 77.92 | 77.92 | 82.60 | 1.05 | 46673 |
| Income | 5 | 79.73 | 79.73 | 84.53 | 7.95 | 41544 |
| Accum Units | 5 | 91.79 | 91.79 | 97.31 | 7.95 | 41545 |
| Smaller Co's | 5 | 71.53 | 71.53 | 75.83 | 3.54 | 41546 |
| Accum Units | 5 | 74.67 | 74.67 | 79.16 | 3.54 | 41547 |
| Tiger Accum H | 5¼ | 74.62 | 74.62 | 79.11 | 1.87 | 46694 |
| **UK Unit Trust Managers Ltd (0905)F** | | | | | | |
| Worthing Road, Horsham, RH12 1SL 0403 40033 | | | | | | |
| British Growth | 5¼ | 64.52 | 64.06 | 70.27 | 2.12 | 41581 |
| Technical Analysis | 5¼ | 63.62 | 64.33 | 68.43 | 1.30 | 41582 |
| **UTAM Ltd (1300)F** | | | | | | |
| 1 White Hart Yard, London Bridge, SE1 071-407 5966 | | | | | | |
| Advisors, Henderson Crosthwaite Ltd | | | | | | |
| Friars Hse Cap | 5½ | 211.3 | 211.3 | 227.2 | 2.75 | 41583 |
| Friars Hse Inc | 5½ | 170.7 | 170.7 | 183.5 | 4.46 | 41584 |
| **United Charities Unit Trusts (1000)H** | | | | | | |
| Unicorn Hse, 252 Romford Rd, E7 081-534 5544 | | | | | | |
| United Charities | 5 | 195.1 | 196.9xd | 210.0 | 5.10 | 41585 |
| **Wardley Unit Tst Mngrs Ltd (1300)H** | | | | | | |
| 3 Harbour Exchange Sqr, London E14 9GJ 071-955 5085 | | | | | | |
| American ▼ | 5¼ | 68.59 | 68.59xd | 73.35 | 1.5 | 41574 |
| Intl Growth | 5¼ | 80.40 | 80.40xd | 85.98 | 0.8 | 41575 |
| Income | 5¼ | 124.9 | 124.9 | 133.5 | 6.2 | 41576 |

| | Bid Price | Offer Price | Yield Gross | Citi-line |
|---|---|---|---|---|
| **Abbey Life Assurance Co Ltd – Contd.** | | | | |
| High Inc. Ser. 4 | 479.1 | 504.4 | – | 41618 |
| Money Ser. 4 | 250.8 | 264.1 | – | 41621 |
| Intl Ser. 4 | 115.1 | 121.2 | – | 47021 |
| Custodian Ser. 4 | 105.5 | 111.1 | – | 47022 |
| *Pension Funds* | | | | |
| Property | 637.4 | 671.0 | – | 41623 |
| Equity | 1183.3 | 1245.6 | – | 41624 |
| Selective | 385.1 | 405.4 | – | 41625 |
| Managed | 866.2 | 911.8 | – | 41626 |
| Security | 495.6 | 521.7 | – | 41627 |
| Fixed Int. | 266.3 | 280.4 | – | 41628 |
| Indexed | 160.0 | 168.5 | – | 41632 |
| American | 275.3 | 289.8 | – | 41630 |
| Japan | 313.1 | 329.6 | – | 41631 |
| European | 188.6 | 198.6 | – | 41629 |
| High Income | 133.2 | 140.2 | – | 46175 |
| Ethical | 122.7 | 129.2 | – | 46174 |
| International | 210.5 | 221.6 | – | 41633 |
| **Acuma Life Assurance Co Ltd** | | | | |
| The Glanty, Egham, Surrey TW2 9AT 0784 475333 | | | | |
| Managed | 175.3 | 184.5 | – | 42158 |
| World Growth | 146.0 | 153.7 | – | 42159 |
| UK Equity | 203.6 | 214.3 | – | 42160 |
| UK Small Companies | 175.0 | 184.2 | – | 42161 |
| European | 154.3 | 162.4 | – | 42162 |
| Far Eastern | 307.1 | 323.2 | – | 42163 |
| Nth American | 112.1 | 118.0 | – | 42164 |
| Fixed Interest | 129.7 | 136.5 | – | 42165 |
| Index Linked Stks | 144.1 | 151.6 | – | 42166 |
| Money | 128.6 | 135.3 | – | 42167 |
| Pen Managed | 223.5 | 235.3 | – | 42168 |
| Pen World Growth | 160.9 | 169.4 | – | 42169 |
| Pen UK Equity | 289.5 | 304.7 | – | 42170 |
| Pen UK Small Cos | 221.3 | 232.9 | – | 42171 |
| Pen European | 152.6 | 160.6 | – | 42172 |
| Pen Far Eastern | 454.8 | 478.7 | – | 42173 |
| Pen Nth American | 114.2 | 120.2 | – | 42174 |
| Pen Fixed Interest | 157.8 | 165.7 | – | 42175 |
| Pen Index Lnkd Stks | 154.4 | 162.5 | – | 42176 |
| Pen Money | 148.5 | 156.3 | – | 42177 |
| **AEtna Life Insurance Co Ltd** | | | | |
| 2-12 Pentonville Rd, London N1 9XD 0800 010375 | | | | |
| *Life Funds (Accumulating Units)* | | | | |
| Sentinel | 13.83 | 14.56 | – | 41636 |
| Bear | 13.95 | 14.69 | – | 41637 |
| Bull | 16.89 | 17.78 | – | 41638 |
| Bull | 15.11 | 15.91 | – | 41639 |
| Stag | 15.31 | 16.12 | – | 41640 |
| Gilt-Edged | 12.19 | | – | 41641 |
| Deposit | 12.41 | | – | 41642 |
| North American | 10.26 | 10.80 | – | 41643 |
| European | 11.88 | 12.51 | – | 41644 |
| Property | 7.87 | 8.29 | – | 41645 |
| Index Linked | 11.08 | 11.67 | – | 41646 |
| Far Eastern | 11.64 | 12.26 | – | 41647 |
| UK Equity | 12.18 | 12.83 | – | 41648 |
| Fixed Interest | 10.83 | 11.40 | – | 41649 |
| Gilt Edged Gifts | 9.62 | 10.13 | – | 47023 |
| *1982 Series* | | | | |
| UK Equity | 263.35 | 277.22 | – | 41651 |
| North American | 200.49 | 211.05 | – | 41652 |
| Far Eastern | 332.17 | 349.66 | – | 41653 |

## OTHER UK UNIT TRUSTS

## INSURANCES

Continued on next page

# FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Norwich Union Life Insurance Soc.—Contd.** | | | | |
| Pensionvestor* & Unit-Linked Plus* | | | | |
| Mixed Fund | 405.5 | 426.8 | – | 43233 |
| Ordinary Share Fund | 604.3 | 636.1 | – | 43229 |
| International Fund | 167.7 | 176.5 | – | 43230 |
| Property Fund | 263.3 | 277.2 | – | 43231 |
| Fixed Interest Fund | 300.6 | 316.4 | – | 43227 |
| Index-Linked Sec Fund | 172.2 | 181.3 | – | 43228 |
| Deposit Fund | 227.1 | 239.1 | – | 43232 |
| Norwich Units May 15 | | 938.37 | – | 43234 |
| *Prices as at June 19 | | | | |
| Jersey Investment Plan | | | | |
| With Profits Fund | 99.29 | 104.51 | – | 40525 |
| Intl Equity Fund | 94.16 | 99.12 | – | 40438 |
| Intl Bond Fund | 96.93 | 102.03 | – | 40349 |
| **Pearl Assurance (Unit Funds) Ltd** | | | | |
| Thorpe Wood, Peterborough PE3 6SA | | | | 0733 63212 |
| Prop Dist. (Gross) | 170.5 | 179.5 | – | 43235 |
| Prop Acc. (Gross) | 291.7 | 307.1 | – | 43236 |
| Equity (Gross) | 821.1 | 864.3 | – | 43237 |
| Managed (Gross) | 573.0 | 603.2 | – | 43238 |
| Prop. Acc. (Net) | 135.7 | 142.9 | – | 43239 |
| Equity (Net) | 189.2 | 199.2 | – | 43240 |
| Managed (Net) | 174.8 | 184.0 | – | 43241 |
| International (Net) | 167.1 | 175.9 | – | 43242 |
| Gilt & Fxd Interest | 105.4 | 111.0 | [illegible] | [illegible] |
| Money Fund | 116.4 | 122.5 | [illegible] | |
| Pearl Assurance (Unit Linked Pens) Ltd | | | | |
| Ret Man (Series 1) | 577.3 | 607.7 | – | 43245 |
| Ret Man (Series 2) | 195.7 | 206.1 | – | 43246 |
| Ret Man (Series 3) | 130.5 | 130.5 | – | 46462 |
| Ret Cash | 156.0 | 164.2 | – | 43247 |
| Ret Cash (Series 3) | 129.5 | 129.5 | – | 46463 |

## Pegasus Assurance Ltd

Broad Quay, Bristol BS1 4DJ 0272 230071

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Prudential Assurance Co** | | | | |
| Holborn Bars, London EC1N 2NH | | | | 071-405 9222 |
| Prufund | | | | |
| Managed June 20 | 249.6 | 260.0 | – | 43512 |
| **Prudential Holborn Life Ltd** | | | | |
| 30 Old Burlington St, London W1X 1LB | | | | 071-439 3134 |
| Holborn Series I Life Funds | | | | |
| Managed | 557.7 | 587.1 | – | 46553 |
| Equity | 1140.4 | 1200.5 | – | 46554 |
| Fixed Interest | 380.4 | 400.5 | – | 46555 |
| Property | 433.1 | 455.9 | – | 46556 |
| Cash | 287.5 | 302.7 | – | 46557 |
| International | 392.6 | 413.3 | – | 46558 |
| Holborn Series II Life Funds | | | | |
| Managed | 545.3 | 574.0 | – | 43513 |
| Equity | 1112.0 | 1170.6 | – | 43514 |
| International | 384.0 | 404.3 | – | 43515 |
| Fixed Intl | 369.6 | 389.1 | – | 43516 |
| Property | 420.9 | 443.1 | – | 43517 |
| Cash | 279.7 | 294.5 | – | 43518 |
| Pacific Basin | 200.7 | 211.3 | – | 43519 |
| North American | 152.3 | 160.4 | – | 43520 |
| European | 191.5 | 201.6 | – | 43521 |
| Holborn Balanced Gwth | 114.6 | 120.7 | – | 43522 |
| Holborn Strategic Gwth | 114.8 | 120.9 | – | 43523 |
| **Prudential Holborn Pensions Ltd** | | | | |
| 30 Old Burlington St, London W1X 1LB | | | | 071-439 3134 |
| Managed | 581.6 | 612.3 | – | 49524 |
| Equity | 846.3 | 890.9 | – | 43525 |
| Global Equity | 242.8 | 255.6 | – | 43526 |
| Fixed Interest | 410.8 | 432.5 | – | 43527 |
| Property | 433.0 | 455.8 | – | 43528 |
| Cash | 179.4 | 188.9 | – | 43529 |
| Index Linked Gilt | 207.9 | 218.9 | – | 49530 |
| Guaranteed | 14.12 | | – | 43531 |

## OFFSHORE AND OVERSEAS

## CANADA (SIB RECOGNISED)

## GUERNSEY (SIB RECOGNISED)

## MANAGEMENT SERVICES

## OFFSHORE INSURANCES

# FT MANAGED FUNDS SERVICE

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## IRELAND (SIB RECOGNISED)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Warburg Inv Mngmt (Isle of Man) Ltd** | | | | |
| Mercury 90:10 Trust (Sicav) | | | | |
| Dollar Fd BOPUPs | $10 26 | 10 27 | – | 46164 |
| Dollar Fd OPUPs | $9 17 | 9 24 | – | 46165 |
| Sterling Fd BOPUPs | £10 30 | 10.31 | – | 46166 |
| Sterling Fd OPUPs | £9 85 | 9.93 | – | 46167 |
| DM Fd BOPUPs | DM10 04 | 10 05 | – | 46168 |
| DM Fd OPUPs | DM8 89 | 8 95 | – | 46169 |
| Yen Fd BOPUPs | $7 59 | 7 60 | – | 46170 |
| Yen Fd OPUPs | $9 08 | 9 15 | – | 46171 |
| **Wardley Investment Services Ltd** | | | | |
| Wardley S E. Asia Tst | $13 76 | 13 83 | 0 80 | 45943 |
| Japanese Warrants | $10 23 | 10.84 | – | 42487 |
| Asian Warrants | $9 84 | 10 42 | – | 42480 |
| European Warrants | $10 28 | 10 89 | – | 42481 |
| Managed | HK$7 68 | 10 31 | – | – |
| **Wells Fargo U.S. IT Fund** | | | | |
| NAV June 21 | | $10 02 | – | 47859 |
| **Xiphias International Investment Fd Ltd** | | | | |
| Xiphias Int USD | | $1 0253 | – | 46024 |
| Xiphias Int ECU | | Ecu1 0241 | – | 46025 |

## Money Market Trust Funds

| | Gross | Net | Gr Eqv CAR | City-line |
|---|---|---|---|---|
| **CAF Money Management Co Ltd** | | | | |
| 48 Pembury Road, Tonbridge TN9 2JD | | | 0732 770114 | |
| Cafcash Deposit Fd. | 14 78 | – | 15.62 | – |
| **The COIF Charities Deposit Account** | | | | |
| 2 Fore Street, London EC2Y 5AQ | | | 071-588 1815 | |
| Deposit | 14 80 | – | 15.641 | – |
| **Cent. Bd. of Fin. of Church of England** | | | | |
| 2 Fore Street, London EC2Y 5AQ | | | 071-588 1815 | |
| Deposit | 14.85 | – | 15 701 | 40250 |
| **Gartmore Money Management Ltd** | | | | |
| 2-3 White Hart Yard, London SE1R 1NA | | | 071-236 1425 | |
| Call Fnd | 14 48 | 11 30 | 15 49 | – |
| 7-day Fund | 14 61 | 11 40 | 15.63 | – |
| Special Fund | 14.83 | – | 16 27 | – |
| Dollar | 7 00 | 5 46 | 7 43 | – |

## Money Market Bank Accounts

| | Gross | Net | Gr Eqv CAR | City-line |
|---|---|---|---|---|
| **Aitken Hume Bank plc** | | | | |
| 30 City Road, EC1Y 2AY | | | 071-638 6070 | |
| Treasury Acc | 13 50 | 10 53 | 14 40 | – |
| [illegible] | 13.50 | 10 53 | 14 73 | – |
| [illegible] | 14.00 | 10 92 | 15.31 | – |
| [illegible] £50,000+ | 14 50 | 11.31 | 15 [illegible] | – |
| **Allied Trust Bank Ltd** | | | | |
| 97-101 Cannon St, London, EC4N 5AD | | | 071-626 0879 | |
| OMNA (£2,001+) | 14 78 | 11 53 | 16 210 | – |
| HICA (£2,001+) | 13 90 | 10 83 | 15.136 | – |

MANAGED FUNDS NOTES

# CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

# High yield factor helps currencies

THE RECENT stability of the US dollar, the Japanese yen and the D-Mark has led the foreign exchange market to turn the focus on currencies with high yields. Sterling and the Australian dollar have been the main beneficiaries and, according to currency analysts, this is likely to continue for the immediate future.

The dollar remains trapped, uncertain about the next move in US interest rates. Latest economic data suggests slower growth and relatively stable inflation but dealers are reluctant to sell the dollar just yet. There were signs last month that the Federal Reserve would respond to signs of an economic slowdown and ease monetary policy, but the Fed left rates unchanged and some dealers were left nursing losses after having marked the dollar lower.

The D-Mark is unlikely to move far from current levels, despite the market's uncertainty about the effect of Germany monetary union on interest rates. The yen looks the most vulnerable of the main currencies after the recent surge in Japanese money supply growth. But the Bank of Japan has already started to tighten policy, and this should underpin the currency.

With seemingly little money to be made in the main currencies, this has increased the attraction of putting funds on deposit in those with high yields. Sterling is the main beneficiary as investors believe that full entry into the European Monetary System later this year, combined with high interest rates, will keep the pound stable. The Australian dollar is helped by an improvement in inflation and signs that its current account deficit is narrowing.

Analysts at Chase Manhattan believe that the trend towards high interest rate currencies will continue. "The market enthusiasm for sterling and the Australian dollar is unlikely to fade quickly, given the yield attractions in an environment of trendless (major) currencies," they say.

The absence of any important data in the US until non-farm payroll figures on July 6 or in the UK until the second week of July is also likely to increase interest in sterling for its high yield.

**UK clearing bank base lending rate 15 per cent from October 5**

## £ IN NEW YORK

| Jun 22 | Close | Previous Close |
|---|---|---|
| £ Spot | 1.7325-1.7335 | 1.7195-1.7205 |
| 1 month | 0.93-0.91pm | 0.92-0.91pm |
| 3 months | 2.72-2.70pm | 2.72-2.69pm |
| 12 months | 9.15-9.00pm | 9.20-9.10pm |

Forward premiums and discounts apply to the US dollar

## STERLING INDEX

[illegible]

## CURRENCY RATES

[illegible]

## CHICAGO

[illegible]

## CURRENCY MOVEMENTS

[illegible]

## OTHER CURRENCIES

[illegible]

## POUND SPOT- FORWARD AGAINST THE POUND

| June 22 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.7145 - 1.7335 | 1.7325 - 1.7335 | 0.92-0.90cpm | 6.30 | 2.72-2.69pm | 6.24 |
| Canada | 2.0180 - 2.0445 | 2.0400 - 2.0410 | 0.26-0.17cpm | 1.26 | 0.61-0.48pm | 0.99 |
| Netherlands | 3.24¾ - 3.27 | 3.25¾ - 3.26¾ | 1¾-1⅝cpm | 6.21 | 5⅛-4⅞pm | 6.13 |
| Belgium | 59.05 - 59.75 | 59.65 - 59.75 | 30-20cpm | 5.03 | 82-66pm | 4.96 |
| Denmark | 10.95¾ - 11.06¼ | 11.04¼ - 11.05¼ | 3⅞-3¼orepm | 3.87 | 11⅝-10⅝pm | 3.98 |
| Ireland | 1.0745 - 1.0870 | 1.0800 - 1.0810 | 0.39-0.35pm | 4.11 | 1.15-1.05pm | 4.07 |
| W. Germany | 2.88¾ - 2.90½ | 2.90 - 2.90½ | 1⅝-1½pfpm | 6.46 | 4⅝-4½pm | 6.29 |
| Portugal | 252.30 - 255.50 | 254.50 - 255.50 | 33-14cpm | 1.11 | 3-27dis | -0.24 |
| Spain | 177.15 - 178.75 | 178.30 - 178.60 | 7-parcpm | 0.24 | 14-4pm | 0.20 |
| Italy | 2113 - 2130¼ | 2125½ - 2126½ | 6¼-5½lirepm | 3.46 | 18¼-16⅝pm | 3.33 |
| Norway | 11.08½ - 11.18¼ | 11.17¼ - 11.18¼ | 3¾-2⅝orepm | 3.22 | 9-7⅞pm | 3.02 |
| France | 9.68 - 9.75¼ | 9.73½ - 9.74½ | 4-3⅞cpm | 4.85 | 11⅝-11pm | 4.59 |
| Sweden | 10.42¾ - 10.52¾ | 10.50½ - 10.51½ | 2½-2orepm | 2.57 | 6⅝-5¼pm | 2.35 |
| Japan | 265¾ - 268¾ | 267¾ - 268¾ | 1⅝-1½ypm | 7.27 | 4⅞-4⅝pm | 7.08 |
| Austria | 20.27 - 20.46 | 20.43 - 20.46 | 10⅝-9⅞gropm | 6.02 | 31½-29¾pm | 5.96 |
| Switzerland | 2.43 - 2.44¾ | 2.43¾ - 2.44¾ | 1¼-1⅛cpm | 5.83 | 3⅞-3⅜pm | 5.53 |
| ECU | 1.4040 - 1.4070 | 1.4055 - 1.4065 | 0.58-0.55cpm | 4.82 | 1.59-1.54pm | 4.45 |

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.21-5.16cpm 12 month 9.18-9.08pm

## DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

| June 22 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.7145 - 1.7335 | 1.7325 - 1.7335 | 0.92-0.90cpm | 6.30 | 2.72-2.69pm | 6.24 |
| Ireland† | 1.5955 - 1.6000 | 1.5990 - 1.6000 | 0.29-0.34cdis | -2.36 | 0.92-1.02dis | -2.43 |
| Canada | 1.1750 - 1.1830 | 1.1820 - 1.1830 | 0.48-0.51cdis | -5.02 | 1.52-1.57dis | -5.23 |
| Netherlands | 1.8825 - 1.8910 | 1.8825 - 1.8835 | 0.02cdis-par | -0.06 | 0.02-0.05dis | -0.07 |
| Belgium | 34.35 - 34.50 | 34.40 - 34.50 | 1.00-6.00cdis | -1.22 | 7.00-15.00dis | -1.28 |
| Denmark | 6.37¾ - 6.39½ | 6.37½ - 6.38 | 1.20-1.40oredis | -2.45 | 3.40-3.90dis | -2.29 |
| W. Germany | 1.6730 - 1.6820 | 1.6740 - 1.6750 | 0.05-0.02pfpm | 0.25 | 0.05-0.02pm | 0.08 |
| Portugal | 146.70 - 147.20 | 146.70 - 146.80 | 60-70cdis | -5.31 | 235-250dis | -6.61 |
| Spain | 103.20 - 103.55 | 103.20 - 103.30 | 51-56cdis | -6.22 | 155-167dis | -6.24 |
| Italy | 1226½ - 1232 | 1226½ - 1227 | 2.60-3.10liredis | -2.79 | 8.60-9.60dis | -2.97 |
| Norway | 6.44½ - 6.46½ | 6.44¾ - 6.45¼ | 1.50-1.80oredis | -3.07 | 5.00-5.50dis | -3.26 |
| France | 5.62 - 5.64¾ | 5.61¾ - 5.62¼ | 0.68-0.73cdis | -1.51 | 2.27-2.37dis | -1.65 |
| Sweden | N/A | 6.06¼ - 6.06¾ | 1.80-1.95oredis | -3.71 | 5.85-6.20dis | -3.97 |
| Japan | 154.55 - 154.95 | 154.70 - 154.80 | 0.13-0.11ypm | -0.99 | 0.36-0.33pm | 0.89 |
| Austria | 11.80¼ - 11.82¼ | 11.80¼ - 11.81¼ | 0.15-0.50grodis | -0.33 | 0.40-1.10dis | -0.25 |
| Switzerland | 1.4075 - 1.4165 | 1.4085 - 1.4095 | 0.07-0.10cdis | -0.72 | 0.18-0.24dis | -0.60 |
| ECU | 1.2275 - 1.2315 | 1.2300 - 1.2310 | 0.16-0.15cpm | 1.51 | 0.57-0.56pm | 0.82 |

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

## EXCHANGE CROSS RATES

| June 22 | £ | $ | DM | Yen | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1 | 1.733 | 2.903 | 268.3 | 9.740 | 2.443 | 3.263 | 2126 | 2.041 | 59.70 |
| $ | 0.577 | 1 | 1.675 | 154.8 | 5.620 | 1.410 | 1.883 | 1227 | 1.178 | 34.45 |

[illegible]

## EURO-CURRENCY INTEREST RATES

[illegible]

## FT LONDON INTERBANK FIXING

[illegible]

## MONEY RATES

[illegible]

## LONDON MONEY RATES

[illegible]

## LONDON RECENT ISSUES

### EQUITIES

[illegible]

### FIXED INTEREST STOCKS

[illegible]

### RIGHTS OFFERS

[illegible]

## BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

## WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

## FT-ACTUARIES WORLD INDICES

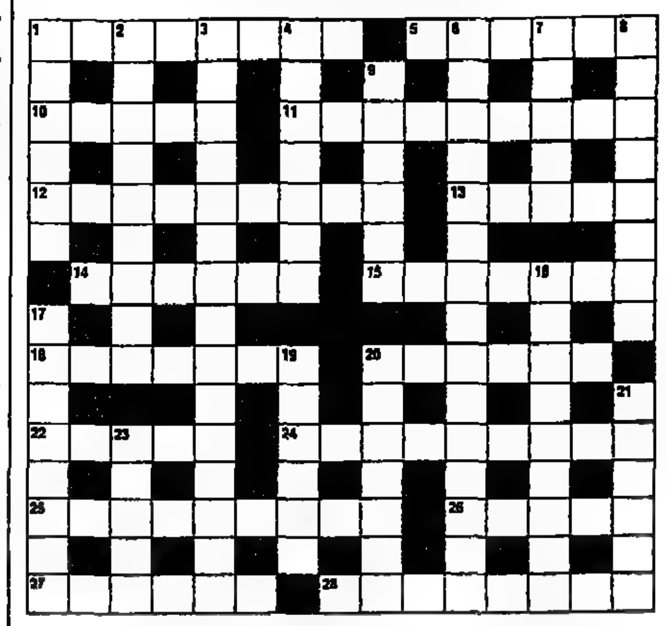
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping | FRIDAY JUNE 22 1990: US Dollar Index | % chg ($) since 29/12/89 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 29/12/89 | Gross Div. Yield | THURSDAY JUNE 21 1990: US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX: 1990 High | 1990 Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (80) | 140.93 | -6.9 | 120.57 | 137.86 | 122.69 | 119.51 | -6.2 | 5.82 | 140.52 | 120.74 | 137.55 | 122.74 | 118.74 | 158.31 | 125.85 | 132.30 |
| Austria (19) | 250.66 | +37.6 | 214.44 | 245.21 | 218.22 | 218.60 | +36.7 | 1.25 | 245.16 | 210.66 | 239.99 | 214.15 | 213.90 | 285.63 | 193.15 | 123.84 |
| Belgium (61) | 149.97 | -3.0 | 128.30 | 146.69 | 130.55 | 127.41 | -6.2 | 4.53 | 150.37 | 129.20 | 147.18 | 131.34 | 127.93 | 160.02 | 132.11 | 129.58 |
| Canada (119) | 134.65 | -11.5 | 115.19 | 131.71 | 117.21 | 115.29 | -9.7 | 3.52 | 136.66 | 117.42 | 133.76 | 119.36 | 116.28 | 153.61 | 130.37 | 141.27 |
| Denmark (33) | 260.14 | +7.4 | 222.55 | 254.47 | 226.47 | 225.64 | +4.1 | 1.28 | 259.58 | 223.04 | 254.09 | 226.73 | 225.34 | 261.19 | 236.69 | 195.96 |
| Finland (26) | 138.56 | +2.4 | 116.83 | 133.59 | 118.89 | 113.19 | +0.1 | 2.42 | 136.32 | 117.13 | 133.44 | 119.06 | 113.19 | 152.29 | 129.99 | 141.62 |
| France (125) | 159.41 | +2.2 | 136.38 | 155.93 | 138.77 | 140.53 | -0.7 | 2.91 | 157.33 | 135.18 | 153.99 | 137.40 | 139.19 | 168.85 | 141.69 | 122.05 |
| West Germany (93) | 132.20 | +8.9 | 113.10 | 129.33 | 115.08 | 115.08 | +5.8 | 1.94 | 130.82 | 112.40 | 128.06 | 114.26 | 114.26 | 137.71 | 122.05 | 90.72 |
| Hong Kong (48) | 134.28 | +14.6 | 114.87 | 131.35 | 116.90 | 134.22 | +14.4 | 4.68 | 133.85 | 115.00 | 131.01 | 116.91 | 133.83 | 134.28 | 112.24 | 92.23 |
| Ireland (17) | 188.60 | +3.9 | 161.35 | 184.49 | 164.19 | 166.15 | +0.9 | 2.64 | 189.07 | 162.45 | 185.07 | 165.14 | 166.77 | 198.57 | 172.72 | 134.69 |
| Italy (96) | 107.19 | +8.9 | 91.71 | 104.85 | 93.32 | 98.21 | +5.3 | 2.42 | 107.30 | 92.19 | 105.02 | 93.71 | 98.62 | 109.26 | 91.85 | 84.41 |
| Japan (454) | 145.11 | -26.5 | 124.14 | 141.95 | 126.34 | 141.95 | -20.9 | 0.59 | 146.36 | 125.75 | 143.26 | 127.85 | 143.26 | 197.26 | 124.40 | 181.04 |
| Malaysia (35) | 229.41 | +0.2 | 196.26 | 224.39 | 199.71 | 239.39 | +0.6 | 2.25 | 227.21 | 195.22 | 222.39 | 198.44 | 237.22 | 245.32 | 204.15 | 179.35 |
| Mexico (13) | 514.11 | +58.0 | 439.82 | 502.90 | 447.57 | 1604.51 | +67.6 | 0.32 | 516.24 | 443.56 | 505.31 | 450.90 | 1607.77 | 549.86 | 324.53 | 264.33 |
| Netherland (43) | 141.32 | -1.8 | 120.90 | 138.24 | 123.03 | 121.45 | -3.2 | 4.64 | 140.29 | 120.54 | 137.32 | 122.54 | 121.02 | 145.66 | 130.43 | 120.82 |
| New Zealand (17) | 65.76 | -8.8 | 56.26 | 64.33 | 57.25 | 59.52 | -7.6 | 7.43 | 65.77 | 56.51 | 64.38 | 57.45 | 59.62 | 75.36 | 59.57 | 67.64 |
| Norway (23) | 234.60 | +17.4 | 200.70 | 229.49 | 204.24 | 205.38 | +14.8 | 1.46 | 234.61 | 201.58 | 229.65 | 204.92 | 205.79 | 245.90 | 202.34 | 182.44 |
| Singapore (25) | 205.61 | +16.0 | 175.90 | 201.13 | 179.00 | 174.49 | +12.5 | 1.94 | 205.46 | 176.54 | 201.11 | 179.45 | 174.36 | 207.93 | 179.70 | 159.26 |
| South Africa (60) | 172.47 | -12.2 | 147.54 | 168.70 | 150.14 | 147.55 | -3.0 | 4.04 | 172.98 | 148.63 | 169.32 | 151.08 | 149.16 | 251.39 | 170.00 | 146.61 |
| Spain (42) | 165.43 | +1.4 | 141.52 | 161.82 | 144.01 | 129.40 | -4.3 | 4.12 | 163.37 | 140.37 | 159.91 | 142.69 | 127.91 | 165.43 | 132.84 | 148.38 |
| Sweden (34) | 219.31 | +14.2 | 187.62 | 214.53 | 190.93 | 196.91 | +11.8 | 2.08 | 218.95 | 188.13 | 214.32 | 191.24 | 196.91 | 219.31 | 173.89 | 165.56 |
| Switzerland (66) | 105.25 | +11.9 | 90.04 | 102.96 | 91.64 | 91.94 | +2.2 | 2.24 | 103.80 | 89.18 | 101.60 | 90.67 | 91.02 | 105.25 | 88.75 | 81.29 |
| United Kingdom (304) | 166.84 | +5.1 | 142.73 | 163.18 | 145.23 | 142.73 | -2.2 | 4.75 | 165.59 | 142.28 | 162.07 | 144.62 | 142.28 | 168.84 | 139.87 | 140.35 |
| USA (537) | 143.84 | +0.6 | 123.05 | 140.71 | 125.23 | 143.84 | +0.6 | 3.38 | 145.72 | 125.21 | 142.64 | 127.28 | 145.72 | 148.55 | 130.61 | 133.62 |
| Europe (982) | 149.80 | +5.2 | 128.15 | 146.54 | 130.42 | 128.91 | +0.4 | 3.53 | 148.57 | 127.66 | 145.43 | 129.77 | 128.30 | 149.80 | 135.57 | 119.15 |
| Nordic (116) | 207.97 | +11.0 | 177.92 | 203.44 | 181.05 | 176.27 | +8.2 | 1.70 | 207.63 | 178.40 | 203.23 | 181.35 | 176.22 | 207.97 | 185.01 | 161.13 |
| Pacific Basin (659) | 144.51 | -25.0 | 123.63 | 141.36 | 125.81 | 140.59 | -19.6 | 0.92 | 145.63 | 125.13 | 142.55 | 127.20 | 141.75 | 192.75 | 124.63 | 175.93 |
| Euro-Pacific (1641) | 147.05 | -14.8 | 125.80 | 143.83 | 128.01 | 136.48 | -12.7 | 2.01 | 147.21 | 126.49 | 144.09 | 128.57 | 136.87 | 174.18 | 130.35 | 153.27 |
| North America (656) | 143.18 | -0.2 | 122.49 | 140.08 | 124.67 | 141.94 | -0.1 | 3.39 | 145.08 | 124.65 | 142.02 | 126.73 | 143.77 | 147.87 | 131.02 | 133.99 |
| Europe Ex. UK (678) | 138.06 | +5.3 | 118.11 | 135.08 | 120.22 | 120.29 | +2.3 | 2.74 | 136.86 | 117.59 | 133.99 | 119.56 | 119.61 | 139.50 | 124.81 | 105.57 |
| Pacific Ex. Japan (205) | 136.52 | +1.2 | 116.79 | 133.56 | 118.86 | 121.66 | +1.5 | 5.04 | 136.11 | 116.95 | 133.25 | 118.90 | 121.13 | 139.32 | 122.53 | 114.76 |
| World Ex. US (1833) | 147.10 | -14.6 | 125.84 | 143.90 | 128.06 | 136.25 | -12.4 | 2.07 | 147.33 | 126.59 | 144.22 | 128.69 | 136.68 | 173.77 | 131.30 | 152.85 |
| World Ex. UK (2066) | 142.67 | -11.4 | 122.05 | 139.57 | 124.21 | 138.22 | -9.0 | 2.26 | 143.67 | 123.44 | 140.64 | 125.50 | 139.28 | 162.00 | 130.80 | 145.44 |
| World Ex. So. Af. (2310) | 144.64 | -9.9 | 123.74 | 141.50 | 125.93 | 138.56 | -8.4 | 2.51 | 145.44 | 124.97 | 142.38 | 127.04 | 139.46 | 161.84 | 131.95 | 144.96 |
| World Ex. Japan (1916) | 146.10 | +1.8 | 124.99 | 142.93 | 127.21 | 137.10 | +0.2 | 3.51 | 145.68 | 126.03 | 143.58 | 128.13 | 137.81 | 147.88 | 134.62 | 127.89 |
| The World Index (2370) | 144.81 | -9.9 | 123.88 | 141.66 | 126.08 | 138.62 | -8.4 | 2.52 | 145.61 | 125.11 | 142.58 | 127.19 | 139.53 | 162.05 | 132.25 | 144.97 |

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Limited. 1987
Constituent changes: Deletion: Tozer Kemsley (UK)(18/6). Name changes: Intl. Minerals & Chemicals to Imcera Group Inc.(US)(19/6) and Lonvest Corp.to London Insurance Corp. (Canada) (20/6). Markets closed June 22: Finland and Sweden.

# CROSSWORD

No.7,272 Set by HIGHLANDER



**ACROSS**

1 He settles punctuation first (8)
5 Conditions made by sovereign territories (6)
10 Prevent development of anything spectacular (5)
11 Fabric requiring, it must be said, additional cutting machinery (4,5)
12 Not even postman is casual worker (3-6)
13 Feel sorry about abandoning river bird (5)
14 Engineers mainstay (6)
15 Commotion about authorised version all goes back to prevarication (7)
18 Do it slowly initially, to avoid fire (7)
20 Something unrepeatable about English cricket side (3-3)
22 Spherical container for plant (5)
24 Elderly relative is fantastic, social worker stated (5-4)
25 Arrange deal with China to produce food in Mexico (9)
26 Spike without point used as weapon by cavalry (5)
27 Press whip-round? Right! (6)
28 Quietly relaxed to run through recording (4,4)

**DOWN**

1 Wheel on the furniture oil (6)
2 She washes the French strip (9)
3 Subject is a change into system of state control (15)
4 Unaccompanied maiden available for ruler (very wisely) (7)
6 People agree on technique for painting in an emotional manner (15)
7 Keep wet or unsettled (5)
8 Warder heard metallic sound: making minute investigation (8)
9 Double over for example: back pain (6)
16 Virus has lot of impact on South Africa's registration (9)
17 Supporter has bad head gash (8)
19 Archbishop is about to give an indication (6)
20 Several deliveries, every one of working gear (7)
21 Vein runs through slice of meat (6)
23 Force (Northern Ireland) rise to encounter (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 7.

JOTTER PAD

# LONDON SHARE SERVICE

## BRITISH FUNDS

[illegible]

## BRITISH FUNDS—Contd

[illegible]

## INT. BANK AND O'SEAS

[illegible]

## CORPORATION LOANS

[illegible]

## COMMONWEALTH & AFRICAN LOANS

[illegible]

## LOANS

[illegible]

## FOREIGN BONDS & RAILS

[illegible]

## AMERICANS

[illegible]

## AMERICANS—Contd

[illegible]

## CANADIANS

[illegible]

Continued on next page

# LONDON SHARE SERVICE

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## BANKS, HP & LEASING

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 2,084.6 | ANZ SA1 | 222 | 2.3 | 9.0 | 12.6 | Feb July | 1698 |
| 2,633.1 | Abbey National 10p | 281 | -0.5 | 3.8 | 12.3 | Apr Oct | 5411 |
| 1,260.3 | Allied Irish Ord | 227 | -3.0 | 4.2 | 29.5 | Dec July | 1354 |
| 1,194.3 | Algemene Fl.10 | £11½ | 3.9 | 7.7 | 3.5 | Aug May | 1567 |
| 27.1 | Anglo Irish | 64 | -4.2 | 6.5 | 30.4 | Jan Jul | 1355 |
| 153.1 | Ansbacher (H.) 1p | 82 | 5.1 | 4.1 | 12.3 | April | 1624 |
| 1,403.3 | Bancaire Cie Fr100 | £60½ | 0.9 | 2.3 | 9.5 | May Mar | 2202 |
| [illegible] | Banco Bilbao Viz | £17¼ | ........ | 4.9 | 9.12 | Dec June | – |
| 2,979.9 | Banco de Santander | £36¼ | -2.7 | 4.3 | 31.10 | Apr Oct | – |
| 831.5 | Bank Ireland IrL1 | 249 | -3.1 | 5.6 | 29.5 | July Dec | 1340 |
| 134.4 | Bank Leumi | £19½ | ...... | – | – | – | 1740 |
| 24.3 | Bank Leumi (U.K.) | 345 | | 5.2 | 26.2 | Mar Sep | 1740 |
| 889.9 | Bank Scotland | 118 | -1.7 | 5.1 | 30.4 | Nov Jul | 1742 |
| 96.0 | Do. 9¼pc Irrd Pf | 94 | 1.6 | 12.8 | 30.4 | May Nov | 1462 |
| 14.7 | Bank of Wales | 46 | ........ | 8.1 | 30.4 | Nov Jun | 1743 |
| 6,391.3 | Barclays £1 | 404xd | 2.8 | 6.5 | 12.3 | Oct May | 1754 |
| 7.5 | Beneficial Bank 20p | 14 | 7.7 | 15.5 | 9.4 | May Oct | 1802 |
| 49.8 | Brown Shipley £1 | 312xd | ........ | 5.1 | 11.6 | Jan Aug | 1983 |
| 98.3 | Cater Allen £1 | 415xr | 2.5 | 8.3 | 27.11 | Jan. Aug | 2081 |
| 24.8 | Chancery | 122 | -3.9 | 10.3 | 27.11 | Jan July | 2102 |
| 431.6 | Commerzbk DM10 | £19¼ | 0.2 | 3.5 | 27.5 | May | 1046 |
| 31,578.9 | Dai Ichi KBk Y50 | 877 | -1.1 | 0.4 | 4.7 | June | 3221 |
| 8,641.4 | Deutsche Bk DM50 | £270½ | 3.0 | 1.9 | 17.5 | May | 2345 |
| 199.2 | Espirito Santo | £18¾ | -3.9 | 2.4 | – | June | 5187 |
| 358.0 | First Nat. Fin. 10p | 222 | -0.9 | 7.8 | 15.1 | Mar Aug | 2571 |
| 53.8 | FNFC 6.3pc Cv. Pf | 111 | ........ | 7.8 | 27.12 | July | 2570 |
| 19,803 | Fuji Bank Y50 | 989 | -0.8 | 0.3 | 4.7 | Dec June | 1084 |
| 119.7 | Gerrard & National | 314 | 1.6 | 8.1 | 29.5 | June Dec. | 2686 |
| 82.9 | Guinness Mahon 10p | 128 | ........ | 2.2 | 14.5 | Jul Feb | 5074 |
| 460.5 | Hambros 20p | 284 | 0.7 | 5.6 | 11.12 | Jan Sep | 2812 |
| 171.0 | Do. 7.5pc Cv Pf | 114 | 2.7 | 8.8 | 12.3 | Apr Oct | 4368 |
| 2,719.8 | HK & Shang. HK$2.50 | 424½ | -2.3 | 6.8 | 14.9 | May Sep | – |
| 24.3 | Joseph (Leo) £1 | 463 | 1.1 | 4.6 | 11.12 | Jan Sept | 3060 |
| 22.6 | King & Shaxson 20p | 143 | -3.4 | 9.8 | 14.5 | Dec June | 3088 |
| 478.1 | Kleinwort Benson Grp | 375 | -4.6 | 5.7 | 26.3 | May Nov | 3102 |
| 5,987.8 | Kyowa Bank Y50 | 488 | -0.2 | 0.6 | | Mar Jun Sept | 3049 |
| 3,581.5 | Lloyds £1 | 290 | 0.3 | 6.1 | 26.2 | Oct May | 3171 |
| 28.6 | Lon. Scot. Bank 10p | 48 | ........ | 6.8 | 29.1 | Mar Aug | 4651 |
| 2,308.6 | Midland £1 | 296 | -1.3 | 8.1 | 26.2 | May Oct | 3380 |

### Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS – Contd

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## ELECTRICALS

## ELECTRICALS – Contd

## ENGINEERING

## ENGINEERING – Contd

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS (Miscel.) – Contd

## INDUSTRIALS (Miscel.) – Contd.

## INSURANCES

## LEISURE

## MOTORS, AIRCRAFT TRADES

### Commercial Vehicles

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## MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

## NEWSPAPERS, PUBLISHERS

[illegible]

## PAPER, PRINTING, ADVERTISING

[illegible]

## PROPERTY

[illegible]

## PROPERTY – Contd

[illegible]

## SHOES AND LEATHER

[illegible]

## SOUTH AFRICANS

[illegible]

## TEXTILES

[illegible]

## TOBACCOS

[illegible]

## TRANSPORT

[illegible]

## INVESTMENT TRUST

[illegible]

## INVESTMENT TRUST – Contd

[illegible]

## INVESTMENT TRUST – Contd

[illegible]

## FINANCE, LAND, ETC

[illegible]

## WATER

[illegible]

## OIL AND GAS

[illegible]

## OIL AND GAS – Contd

[illegible]

## OVERSEAS TRADERS

[illegible]

## PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

## MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

## MINES – Contd

Miscellaneous

[illegible]

## THIRD MARKET

[illegible]

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names. α Alpha, β Beta, γ Gamma
Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.
Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm +) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed, dealings permitted under rule 535(4)(a)
- + USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
- †† Not officially listed
- # Price at time of suspension
- ♣ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend
- ¢ Cover does not allow for shares which may also rank for dividend at a future date.
- § No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents e Redemption yield f Flat yield k Kenya. C Canadian. E Minimum tender price
Abbreviations: xd ex dividend; xc ex scrip issue, xr ex rights, xa ex all, xc ex capital distribution

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

| | | | | |
|---|---|---|---|---|
| Craig & Rose £1 | γ | 830 | | |
| Finlay Pkg 5p | γ | 53 | -3 | |
| Holt (Jos) 25p | γ | 1300 | | |

IRISH

| | | | |
|---|---|---|---|
| Cap 6½% Ln 1991 | £98¼ | | |
| 9pc Cap Ln 1996 | £95¼ | | |
| Fin 13% 97/02 | £112¼ | | |
| Arnotts | 192 | -6 | |

| | | | |
|---|---|---|---|
| Carroll (P.J.) | γ | 140 | |
| Hall (R & H) | | 165 | |
| Heiton Hldgs | γ | 75 | +1 |
| IWG | | 201 | -2 |
| United Drug | | 160xd | -3 |

## TRADITIONAL OPTIONS

3-month call rates

| Industrials | p |
|---|---|
| Allied-Lyons | 46 |
| Amstrad | 7 |
| Assoc (BSR) | 6 |
| BAT | 62 |
| BOC Grp | 48 |
| BTR | 37 |
| Barclays | 34 |
| Blue Circle | 21 |
| Boots | 24 |
| Bowaters | 40 |
| Brit Aerospace | 47 |
| British Steel | 13 |
| Brit Telecom | 25 |
| Cadburys | 30 |
| Charter Cons | 42 |
| Comm Union | 41 |
| Courtaulds | 29 |
| Eurotunnel | 55 |
| FKI | 7 |
| FNFC | 20 |
| Gen Accident | 93 |
| GEC | 18 |
| Glaxo | 68 |
| Grand Met | 53 |
| Guardian | 20 |
| GKN | 33 |
| Hanson | 20 |
| Hawker Sidd | 53 |
| ICI | 99 |
| Ladbroke | 27 |
| Legal & Gen | 34 |
| Lex Service | 28 |
| Lloyds Bank | 25 |
| Lucas Inds | 13 |
| Marks & Spencer | 19 |
| Midland Bk | 24 |
| Nat West Bk | 30 |
| P & O Dfd | 82 |
| Polly Peck | 39 |
| Racal Elect | 19 |
| RHM | 30 |
| Rank Org Ord | 70 |
| Reed Intnl | 38 |
| STC | 21 |
| Sears | 9 |
| SmKl Beecham A | 48 |
| TI | 39 |
| TSB | 11 |
| Tesco | 19 |
| Thorn EMI | 62 |
| Trust Houses | 24 |
| T&N | 18 |
| Unilever | 58 |
| Vickers | 19 |
| Wellcome | 57 |

| Property | |
|---|---|
| Brit Land | 32 |
| Central Secs | 4 |
| Land Securities | 45 |
| MEPC | 45 |
| Mountleigh | 13 |

| Oils | |
|---|---|
| Aviva Petlm | 5 |
| Brit Petroleum | 28 |
| Burmah Oil | 55 |
| Conroy Petlm | 10 |
| Gaelic Res | 3½ |
| Premier | 9 |
| Shell | 40 |
| Tuskar Res | 5½ |
| Ultramar | 31 |

| Mines | |
|---|---|
| Lonrho | 21 |
| RTZ | 50 |

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

*4pm prices June 22*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | - A - A - A - | | | | | | | | |
| 37½ | 19 | AAR | .48 | 2.3 | 13 | 1779 | 21⅛ | 20⅝ | 21 | + ⅜ |
| 9¼ | 8 | ACM n | 1.01 | 12. | | 88 | 8⅞ | 8⅝ | 8⅝ | |
| 11⅝ | 9⅞ | ACMIn | 1.26 | 12. | | 1056 | 10¼ | 10⅛ | 10¼ | |
| 9⅜ | 7¼ | ACM M n | 1.01 | 13. | | 268 | 7⅞ | 7¾ | 7⅞ | |
| 12⅛ | 10 | ACMMM | | | | 253 | 10⅞ | 10⅝ | 10⅝ | - ⅛ |
| 11½ | 9⅞ | ACM Sc | 1.26 | 12. | | 1805 | 10⅛ | 10 | 10⅛ | + ⅛ |
| 9⅝ | 8⅛ | ACMSp | 1.01 | 12. | | 709 | 8⅝ | 8¼ | 8¼ | |
| 34⅝ | 14⅝ | AL Lab | .16 | .7 | 21 | 494 | 23 | 22⅞ | 23 | + ⅛ |
| 5¼ | 2⅛ | AM Intl | | | | 173 | 2¼ | 2⅝ | 2⅝ | |
| 23⅛ | 10¼ | AM In pf | 2 | 16. | | 28 | 12¼ | 12⅛ | 12⅛ | - ⅛ |
| 107¼ | 52½ | AMR | | | 12 | 2610 | 66⅛ | 64⅞ | 64⅞ | - 1⅛ |
| 38½ | 25 | ANR pf | 2.67 | 10. | | 432 | 25⅞ | 25⅝ | 25⅞ | + ⅛ |
| 4¼ | 3 | ARX | | | | 11 | 3½ | 3½ | 3½ | |
| 72⅛ | 48⅞ | ASA | 3a | 6.8 | | 561 | 44⅞ | 44 | 44⅛ | + ⅛ |
| 40⅞ | 28⅛ | AbtLab s | .84 | 2.1 | 20 | 8303 | u41 | 40 | 40⅛ | - ⅝ |
| 16⅛ | 11⅛ | Ablbbl g | .50 | | | 4 | 13⅛ | 13⅛ | 13⅛ | |
| 12⅞ | 8¼ | AcmeC | .40 | 4.9 | 10 | 62 | 8⅝ | d 8⅛ | 8⅛ | - ⅛ |
| 9¼ | 7⅞ | AcmeE | .32 | 3.8 | 10 | 20 | 8⅛ | 8⅛ | 8⅛ | + ⅛ |
| 41⅞ | 28⅛ | Acuson | | | 22 | 628 | 37⅞ | 36⅞ | 37½ | + ½ |
| 18½ | 13½ | AdaEx | 2.06e | 13. | | 144 | 16⅛ | 16 | 16 | |
| 15⅛ | 3½ | Adobe | | | | 98 | 11⅞ | 11⅛ | 11⅛ | + ⅛ |
| 20¼ | 17⅛ | Adob pf | 1.84 | 9.6 | | 5 | 19⅛ | 19⅛ | 19⅛ | |
| 21⅞ | 20⅛ | Adob pf | 2.40 | 12. | | 3 | 20⅝ | 20⅝ | 20⅝ | - ⅛ |
| 11⅝ | 6⅞ | AMD | | | 19 | 3021 | 9½ | 9 | 9 | - ⅛ |
| 34¼ | 28⅞ | AMD pf | 3 | 9.4 | | 15 | 32 | 31⅞ | 32 | + ⅛ |
| 10⅛ | 4⅛ | Advest | .16 | 3.6 | 56 | 43 | 4⅝ | 4⅛ | 4½ | - ⅛ |
| 62½ | 45⅛ | AetnLf | 2.76 | 5.3 | 8 | 2290 | 52⅛ | 51⅞ | 52 | - ½ |
| 14 | 9¼ | AffPb | .24 | 2.3 | | 502 | 10⅞ | 10⅝ | 10⅝ | |
| 25 | 16½ | Ahmans | .88 | 4.5 | 9 | 1813 | 20⅛ | 19⅝ | 19⅞ | |
| 3⅝ | 1⅞ | Aileen | | | | 92 | 2⅝ | 2½ | 2⅝ | - ⅛ |
| 58 | 40 | AirPrd | 1.44 | 2.6 | 14 | 1213 | 56⅝ | 55⅛ | 55¼ | - 1⅞ |
| [illegible] | | | | | | | | | | |

Continued on Page 35

هاتف دائم الحلول



# NYSE COMPOSITE PRICES

Continued from previous Page

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 7¾ | 6½ | RJR Nb wt | | | | 1346 | 6⅞ | 6⅝ | 6¾ | |
| 14¾ | 6⅞ | RLI Cp | .40 | 3.1 | 7 | 101 | 13¼ | 12⅞ | 12⅞ | - ⅛ |
| 13 | 10½ | RMI Ti | n.03e | .3 | | 79 | 11⅜ | 11⅛ | 11⅜ | |
| 17⅝ | 9⅛ | ROC Fd | .38e | 3.8 | | 1152 | 10⅛ | 10⅛ | 10⅛ | |
| 9 | 5¼ | RPC | | | 21 | 18 | 8⅝ | 8⅝ | 8⅝ | |
| 6¼ | 5⅜ | RPS | .82e | 14. | 7 | 188 | 6 | 5⅞ | 5⅞ | - ⅛ |
| 75⅞ | 49¾ | Racal | .26e | | 4 | 31 1015 | 61⅛ | 60⅝ | 60⅞ | - ½ |
| 101½ | 77¾ | RalsPur | 1.85 | 2.0 | 16 | 1228 | 91¾ | 91 | 91½ | - ⅜ |
| 6⅞ | 5⅛ | RangrO | .08e | 1.0 | 20 | 411 | 6⅛ | 6 | 6⅛ | + ⅛ |
| 38¼ | 25¼ | Rayom | .32 | .92 | 13 | 1418 | 34⅞ | 34⅛ | 34⅛ | - ⅛ |
| 22⅜ | 15 | RJamF | .24 | 1.2 | 8 | 8 | 20½ | 20⅜ | 20⅜ | - ⅛ |
| 28½ | 18⅝ | Rayonr | 3.60 | 18. | 5 | 835 | 20⅜ | 19¾ | 20 | -1 |
| 85 | 60 | Raytn | 2.40 | 3.8 | 8 | 2956 | 64½ | 62¼ | 62½ | -2 |
| 26½ | 21 | RdrDg | n.12e | .5 | | 1359 | 25⅜ | 24½ | 24½ | - ⅞ |
| 5 | 15-16 | RdgB n | | | | 418 | 2 | 2 | 2 | |
| 17 | 14 | REIT | 1.42 | 9.3 | 12 | 65 | 15⅜ | 14⅞ | 15¼ | + ½ |
| 16⅛ | 13⅝ | RltRet | 1.72 | 12. | 8 | 6 | 14 | 14 | 14 | |
| 12⅜ | 4⅜ | RecnEq | | | | 400 | 4⅞ | 4⅝ | 4⅝ | + ⅛ |
| 20 | 12⅝ | Reebok | .30 | 1.7 | 11 | 3005 | 18⅛ | 17¾ | 17¾ | - ⅛ |
| 13 | 7⅜ | Reece | .05j | | | 6 | 7½ | d 7½ | 7½ | - ¼ |
| ½ | 5-32 | Regal | | | | 224 | ⅜ | 11-32 | 11-32 | -1-32 |
| 15⅝ | 11⅞ | ReichTg | 1.52 | 13 | 6 | 21 | 11⅞ | 11⅜ | 11⅞ | |
| 8⅝ | 4⅜ | RelGrp | .32 | 6.2 | 128 | 122 | 5¼ | 5⅛ | 5⅛ | |
| 25 | 16⅞ | Repsol | n.75e | 3.2 | | 16807 | 23¾ | 23½ | 23½ | - ⅛ |
| 6⅜ | 3⅞ | RepGyp | 19t | 5.4 | 27 | 91 | 3½ | 3⅜ | 3½ | + ⅛ |
| 52⅞ | 42½ | RepNY | 1.32 | 2.7 | 346 | 84 | 48⅝ | 48⅜ | 48½ | + ⅛ |
| 11⅛ | 1⅞ | Rvene | | | | 434 | 2⅝ | 2⅜ | 2⅜ | - ⅛ |
| 30¾ | 18¾ | ReyRey | .80 | 3.7 | 9 | 67 | 22 | 21⅞ | 21⅞ | - ⅛ |
| 60⅛ | 48½ | ReyMtl | 1.80 | 3.1 | 7 | 1910 | 58 | 57¼ | 58½ | - ¼ |
| 19 | 14⅛ | RhP plA | | | | 158 | 17⅛ | 17⅛ | 17⅛ | |
| 3½ | 1⅜ | RhnP wt | | | | 389 | 2⅜ | 2¼ | 2⅜ | |
| 22 | 16½ | RhnPl n | | | | 215 | 19½ | 19¼ | 19⅜ | - ⅛ |
| 41⅛ | 29⅝ | RiteAid | .90 | 2.7 | 14 | 414 | 35¼ | 33½ | 33⅝ | -1⅛ |
| 11-32 | 3-64 | RvrOak | | | | 11 | 1-16 | 1-16 | 1-16 | |
| 19⅛ | 14½ | RbtH8 | | | 14 | 24 | 15¾ | 15⅜ | 15¾ | + ⅛ |
| [illegible] | | | | | | | | | | |

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 10 | 7¼ | StrlBcp | .20 | 2.6 | | 12 | [illegible] | | | |
| 12 | 6⅛ | StrlCh | 1 | 15. | 10 | 178 | [illegible] | | | |
| 11 | 6¾ | StarlSH | | | 12 | 68 | [illegible] | | | |
| 47½ | 40⅝ | StrlSf pf | 7.20 | 15. | | 1 | [illegible] | | | |
| 7⅞ | 4⅝ | Stifel | | | | 15 | 3 | | | |
| 45¾ | 33⅝ | StneW | s1.20 | 3.2 | 20 | 74 | [illegible] | | | |
| 35 | 16¼ | StoneC | .72 | 4.1 | 4 | 1444 | [illegible] | | | |
| 10⅝ | 6⅛ | StonRs | | | | 67 | [illegible] | | | |
| 14 | 7 | StorEq | .80 | 10. | 7 | 97 | [illegible] | | | |
| 34 | 9¼ | StorTc n | | | 19 | 2800 | [illegible] | | | |
| 35¼ | 18¼ | Stratus | | | 16 | 1233 | [illegible] | | | |
| 30¾ | 19½ | StridR | s .40 | 1.5 | 16 | 6234 | [illegible] | | | |
| 38½ | 23 | SturmR | 1 | 3.8 | 10 | 1914 | [illegible] | | | |
| 9½ | 5 | SuavSh | | | 34 | 10 | [illegible] | | | |
| 10½ | 8⅝ | SunDis | n1.10 | 13. | | 166 | [illegible] | | | |
| 4⅝ | 3 | SunDisB | | | | 149 | [illegible] | | | |
| 24⅜ | 13⅛ | SunEl | | | | 467 | [illegible] | | | |
| 13⅝ | 10⅛ | SunEng | 1.35e | 12. | 38 | 68 | [illegible] | | | |
| 43¼ | 38⅛ | SunCo | 1.80 | 4.8 | 69 | 958 | [illegible] | | | |
| 41⅜ | 29 | Sunst | s 1.10 | 2.9 | 12 | 1066 | [illegible] | | | |
| 4¾ | 2⅞ | SunMn | | | | 924 | [illegible] | | | |
| 9⅜ | 8⅜ | SunM pf | 1.19 | 14. | | 52 | [illegible] | | | |
| 28⅞ | 20⅛ | SunTrst | .84 | 4.0 | 8 | 1135 | [illegible] | | | |
| 22 | 15⅞ | SuprFd | s.32 | 1.7 | 16 | 417 | [illegible] | | | |
| 30⅜ | 23⅞ | SupValu | .60 | 2.2 | 14 | 4802 | [illegible] | | | |
| 24½ | 14¾ | Supind | s.28b | 1.3 | 12 | 498 | [illegible] | | | |
| 17½ | 9½ | SwHelv | | | | 832 | [illegible] | | | |
| 24⅜ | 6⅝ | SybITc | | | 29 | 1735 | [illegible] | | | |
| 14 | 9⅞ | SymsCp | | | 10 | 192 | [illegible] | | | |
| 18½ | 14 | Synovs | .38 | 2.1 | 17 | 132 | [illegible] | | | |
| 58½ | 40 | Syntex | 1.80 | 2.8 | 20 | 3523 | [illegible] | | | |
| 36½ | 23¼ | Sysco | s .20 | [illegible] | | | | | | |
| 25⅝ | 18½ | SystCt | | | 17 | 181 | [illegible] | | | |
| | | – T–T–T – | | | | | | | | |
| 36 | 15⅝ | TCBY | .12 | .6 | 18 | 2587 | [illegible] | | | |
| [illegible] | | | | | | | | | | |

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |
| 27⅞ | 18⅞ | XTRA pf | 1.94 | 9.6 | | 12 | 20¼ | 20⅛ | 20⅛ | |
| 4¾ | 1⅞ | Zapata | | | | 407 | 1⅞ | 1¾ | 1⅞ | |
| 12⅝ | 6⅝ | Zemex | | | | 55 | 6¾ | 5⅞ | 6⅝ | |
| ⅞ | ⅛ | Zemex rt | | | | 100 | ⅛ | ⅛ | ⅛ | |
| 19⅞ | 7⅞ | ZenithE | | | | 1161 | 8½ | 8 | 8⅛ | - ⅛ |
| 21½ | 13½ | ZenNtl | .88 | 5.9 | 9 | 8 | 15 | 15 | 15 | |
| 9⅜ | 8⅝ | Zenix | .90 | 10. | | 181 | 8⅞ | 8¾ | 8¾ | |
| 18⅝ | 12⅞ | Zero | s .40 | 2.8 | 14 | 196 | 14½ | 14¼ | 14⅜ | + ⅛ |
| 45¾ | 34 | Zurnin | .76 | 1.6 | 21 | 622 | u49 | 48 | 48 | - ⅞ |
| 12⅝ | 10⅝ | Zweig | 1.21e | 11. | | 668 | 11½ | 11⅜ | 11⅜ | - ⅛ |
| 10 | 9 | ZweigTl | .96 | 10. | | 1446 | 9⅝ | 9¼ | 9⅜ | |

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE PRICES

4pm prices June 22

| Stock | Div. | P/E | Sls 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |
| PlyGem | .12 | 15 | 11 | 8 | 8 | 8 | - ⅛ |
| Presd A | .10 | | 10 | 6⅞ | 6⅞ | 6⅞ | + ⅛ |
| PrcCom | | | 195 | 3½ | 3⅜ | 3½ | |
| ProMed | .42a | 9 | 21 | 4⅞ | 4⅞ | 4⅞ | |
| ProfCre | | 14 | 25 | 4⅞ | 4⅞ | 4⅞ | + ⅛ |
| | | – R–R – | | | | | |
| [illegible] | | | | | | | |

# NASDAQ NATIONAL MARKET

4pm prices June 22

| Stock | Div. | Sales 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|
| [illegible] | | | | | | |

## The Business Column

### Raising the quality of inward investment

SPURRED by impending European Community regulations which will require at least 50 per cent "local content" in products and services supplied to the public sector, a leading American multinational recently carried out a *unit-by-unit assessment of all* its operations in Europe.

Somewhat to its surprise, it found that the highest local content levels, of between 65 per cent and 80 per cent, are in units which have clear worldwide responsibility for the design and development of the products they make.

In contrast, a maximum rate of barely 50 per cent is achieved by its various units with responsibilities that are *limited to production* – whether just for Europe or also for other markets – and whose products are developed elsewhere, mainly in the US or Far East.

The lowest-rated unit of all has just over 35 per cent local content (only one of the plants could possibly be described as a "screwdriver" assembly operation, with most of its parts imported, although it is being transformed rapidly up the scale into a *fully-fledged* unit with its own product development).

The company's discovery is significant, both for managers in other multinationals and for public policy towards the "quality" of inward investment - especially by the hordes of Japanese companies which are pushing into Europe.

#### Worldwide designs

The surprise of the company's executives arises from the fact that, across the globe, all its units with international development missions are instructed to design for worldwide markets: they must design-in the best and most cost effective components and sub-assemblies available, in theory regardless of source.

The phenomenon which the company has uncovered seems part of a virtuous circle: when a multinational establishes a production offshoot on a particular site, suppliers tend to spring up around it. As it starts to undertake local development, *it becomes more innovative*, and more demanding of them. Eventually, backed by several now highly innovative local suppliers, the offshoot is given full international development responsibility by head office.

The basic principles of such Silicon Valley-type ripple effects are well known. But the dramatic impact of local product development on local content levels has been less *fully appreciated. The implications* for public policy, and for Japanese multinationals desperate to become good "local citizens", are considerable.

The long standing obsession of all European government ministers with job creation, regardless of the skill level of those jobs, has started to give way to a concern about quality: Japanese multinationals win less praise these days for employing mere wielders of *screwdrivers, and are now* under pressure to boost local content.

#### Skill levels

They are also being encouraged to raise skill levels further by starting local research; short of certain skills at home, they are gladly responding.

Yet this pressure mainly misses the point. It is easy enough for a Japanese multinational to employ a few score off-line local researchers, who feed their ideas back to Tokyo. But a fully fledged on-line local development effort requires *a different level of* managerial commitment.

Not only does this embed the company fully into the country concerned, it has a much greater multiplier effect: in both the number and quality of local jobs that are created indirectly, and in the competi*tiveness of the country* concerned.

The fact that few Japanese companies have yet approached this stage is not surprising, given their relatively recent arrival as manufacturers in Europe. But more should now be expected to follow the lead of Nissan in setting up development facilities.

Sony, Sharp and Canon are on the right track, but as yet they are in a tiny minority. More companies would do well to see "local content" not just in terms of parts and components, but also of designers and development engineers.

Christopher Lorenz

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*MONDAY INTERVIEW*

# Outsider pulls off an inside job

### Robin Leigh-Pemberton, Governor of the Bank of England, speaks to **Peter Norman**

The Bank of England is not a breeding ground for public figures.

Its officials traditionally take their cue from Sir John Soane's windowless curtain wall that *surrounds* the Bank, and cultivate an aura of mystery and discretion. Its senior officers, when they issue into the wider world, tend to speak in a strange coded manner intelligible only to tribal audiences of bankers, brokers and monetary officials.

So one of the surprises of recent months has been to find Mr Robin Leigh-Pemberton, the Governor of the Bank of England, taking a more prominent and forthright role in the nation's affairs, especially on the vexed issues of inflation and Europe.

"I do feel absolutely passionately about the destructive influence of inflation," the governor says. "It is so socially subversive." But it is the subject of Europe that really animates the carefully composed face that looks so much like central casting's ideal of a British military man.

The governor admits to being a "strong European" and does not conceal his dismay at Britain's often lagging role in *the European Community.* "The developments in Europe since the end of the war are surely one of the most sensational developments in history," he says.

Now seven years in the job, Mr Leigh-Pemberton has experienced what financial markets call a re-rating in recent months. And it was the European issue that started this process.

In April last year he *incurred the wrath of Downing* Street by signing the Delors Committee report with its programme for moving towards a single European currency and central bank. By endorsing a plan that is anathema to the Prime Minister, the governor established himself in the public eye as his own man.

A couple of months ago, Mr Leigh-Pemberton was in the headlines again after a speech in Durham in which he can*didly acknowledged* that "something had gone quite badly wrong" in controlling inflation. Earlier this month, he launched a powerful attack on Britain's apparently insatiable appetite for credit, criticising "I want it, and I want it now" attitudes.

The disclosure in Mr Nigel Lawson's resignation speech that he had presented a fully worked-out scheme for the independence of the Bank when Chancellor also helped raise the stock of both Bank and governor. It has triggered a debate over whether Britain's poor record on price stability could not be bettered if the Bank had more power over monetary policy.

The net effect is that Mr Leigh-Pemberton has been able to lay to rest the suggestion that he is no more than a lucky or gifted amateur at the Bank, or worse, the poodle of Mrs Thatcher who unexpectedly appointed him in 1983.

*His re-rating has also* expunged the unpleasant memories of his first difficult five-year term of office. Owning a 2,200-acre farm in Kent and his previous careers as a barrister and chairman of National Westminster Bank were poor preparation for the political furore that followed the Bank's rescue of Johnson Matthey Bankers in 1984 and which saw the Bank's morale plummet and relations with the Treasury reach new lows.

**PERSONAL FILE**

- 1927 Born in Lenham, Kent.
- 1945 Joins Grenadier Guards.
- 1948 Goes as Classical Scholar to Trinity College, Oxford.
- 1954 Called to the Bar.
- 1977 Chairman of National Westminster Bank.
- 1982 Appointed Lord-Lieutenant of Kent.
- 1983 Made Governor of the Bank of England.

In his elegant, lofty room that opens on to the peace and quiet of the Bank's Garden Court, Mr Leigh-Pemberton gives vent to his frustration about how Britain has seemed to lag behind *the rest of* Europe.

"I *have* felt disappointed at Britain's part in this development and I don't say that referring only just to recent events. But even to the fact that we found it so difficult to become a member of the Community; that we joined so late and lost a great deal of the early benefits. And I do believe that the economic progress of Britain has been prejudiced by the fact that we were excluded or on the fringes for a long time," he says.

"And if I may come to modern times, I think it is very important the United Kingdom should play its part in the developments in western Europe which are clearly leading to greater and greater co-operation. I don't think it's necessary we should have a federal Europe or a political union. But I do feel that the increasing co-operation leading to ultimately the economic and *monetary union is an impor*tant development, not only historically, but also for this country's prosperity."

His belief that EMU, and the possibility that a single banknote for Europe, "will happen one of these days," shows that differences between him and the Prime Minister persist. She last week denied that the Government's "hard Ecu" plan would eventually replace sterling.

*But there is no doubt about* his support for the latest proposals and their market-related character. "I have felt it was very important that progress should be evolutionary and on a sound basis in the real economy. There is a danger that if we work too fast and concentrate too much on the institutional changes, that we may get those changes running ahead of what is actually happening in real life in the real economy; what is indeed happening to and with ordinary people."

In the meantime, would it not make sense for Britain to follow the continental trend of moving towards a more independent central bank?

The governor is cautious. He believes that a change to the Bank of England Act would have to wait for the creation of a new European central banking institution when there would be "the need to consider the relationship of the Bank with both the UK government and the new European central banking system."

In the shorter term, "I do not believe that we shall see an amendment to the 1946 act. Both parties have indicated that they don't include that in their programmes for the next government."

However, the Bank has been studying whether monetary policy can or should be conducted in a clearer way or in a manner where the respective roles of the Treasury and the Bank can be more readily identified.

Mr Leigh-Pemberton is clearly intrigued by the position in the Netherlands. There, in the event of a dispute over monetary policy between the Finance Ministry and Dutch central bank, "they have a formal procedure, where the governor has the right to appeal to the cabinet. The finance minister has to give his reasons in writing and publish them. Then the matter becomes a national issue."

Things are never meant to come to such a pass. But the arrangement "gives the governor of the Netherlands Bank just that extra degree of leverage in this relationship (with the finance ministry) which we may not have."

But why should the Bank seek extra leverage in monetary affairs when it appears to be losing clout in the City? Only recently the Bank suffered what seemed to be a humiliating setback when *it* failed to rally support from the clearing banks for a rescue of British and Commonwealth Merchant Bank. Why was this?

"We came to the conclusion that we thought it wasn't justified." Was this a convenient conclusion or a genuine conclusion? "I think a genuine conclusion. You have to take note of the commercial judgment of banks. If there is a degree of reluctance to support the situation based on their commercial judgment, the central bank is entitled to say that in our view this institution is enough at the centre for its collapse to result in systemic damage and, if necessary, I *believe the banks* would have supported this as they did in the Johnson Matthey matter."

"But if a number of commercial banks don't believe that it is in their interests to continue support and don't believe that the end of this institution would affect them systemi*cally, it would be rather* an unrealistic and *dirigiste* central bank that ignored that opinion."

But is this not just another way of admitting that the age of exercising power through the nod and wink and governor's eyebrows is over?

*Apparently not.* "I don't think the era is over," the governor says, pointing out that the Bank still controls certain wholesale market activities such as the discount houses without resorting to the letter of any law.

Moreover, "we've gained clout through the effects of the most recent Banking Act. The scale and routine of banking supervision is much more intensive than it used to be," *he says. "Also there remains* a powerful source of clout for the Bank which derives from having the Banking Act in the background. Think what this means – a formal finding by the Bank of England that somebody is not "fit and proper" – that must be the kiss of death to anybody's career."

So after seven years, and with three years of his contract still to go, does this courteous and charming *Tory squire feel* a true central banker?

"When I arrived here, I had a lot to learn. But yes, I do because I feel passionately about inflation and the soundness of the currency," he says. "But I suppose I shall never be a total central banker in the sense of some of my colleagues for whom the Bank of England has been a life career, because actually, until seven years ago, I had been a commercial banker, company director, farmer, barrister. The experiences in those activities enables one to have an alternative slant on what we do here which I believe to be healthy, I hope helpful, and possibly even one of the reasons why traditionally the governor may be chosen from outside."

TONY ANDREWS

**'I feel passionately about inflation'**

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# Fishing in murky sovereign waters

**JUSTINIAN**

When parliament passed the European Communities Act 1972 it provided specifically that certain kinds of Community law, including the rulings of the European Court of Justice, became effective, without any further legislative act, as part of the body of law to be enforced by our courts. Why then was there *such* fuss and pother in parliament last week, with protestations of constitutional impropriety being banded about, over a ruling from the European Court that an English court can suspend (or, strictly speaking, temporarily disapply) an act of the United Kingdom parliament regulating fisheries?

The presumed confrontation between the sovereignty of the United Kingdom parliament and the Treaty of Rome stemmed from a case brought last year in the English courts by companies incorporated in the UK but most of whose *directors and shareholders are* Spanish nationals owning 95 deep-sea fishing vessels registered as British under the United Kingdom merchant shipping legislation. Under the Merchant Shipping Act 1988 and departmental regulations, vessels previously registered as British were required to be re-registered. The 95 vessels failed to satisfy the new conditions for registration. The reason was simply that they were managed and controlled from Spain. Thus, excluded from fishing in British waters, the companies challenged in the courts the registration system on the ground that it contravened the provisions of the Rome Treaty and other rules given effect to by the European Communities Act *1972*. They claim that they were being deprived of enforceable Community rights. The United Kingdom Government contended that member states had a right to decide for themselves what vessels were entitled to fly its flag.

The immediate question for the English courts was whether, pending the final determination of the rights of the *Spanish fishermen* as against the restrictions imposed by law on registration of British fishing vessels, including a reference to the European Court for a preliminary ruling, there should be any interim order which would enable the Spaniards to continue operating their 95 vessels as if they were duly registered British fishing vessels and thereby avoid irreparable damage. It was estimated that the European Court's preliminary ruling would not be given for two years from the date when the reference was made by the English courts.

**The 1972 act renounced this country's power to legislate contrary to Community law**

When the judicial review proceedings first came to the *High* Court, the *rival* arguments clearly indicated the need for a reference to Luxembourg. In addition Lord Justice Neill and Mr Justice Hodgson ordered that in the meantime the Secretary of State for Transport should be restrained from enforcing the restrictions on *registrations against* the Spaniards. At that time there was not the complicating factor that interim injunctions against the Crown could not be ordered. In any event the Court of Appeal set aside the order for interim relief. And the House of Lords, while affirming the reference to Luxembourg, reinstated the previous rule of English law that there is no jurisdiction in the *courts* to grant interim injunctions against the Crown. The Law Lords concluded that it was not open to them to decide one way or another whether "in relation to the grant of interim protection in the circumstances of the instant case, Community law overrides English law and either empowers or obliges an English court to make an interim order protecting the putative rights claimed by the applicants."

There's the rub. The Appeal Court judges see the issue (as do some politicians, including the Prime Minister) as a conferment of Community law rights "directly contrary to parliament's sovereign will." Lord Bridge of Harwich, who delivered the only judgment in the Lords, said: "I am clearly of *opinion* that *as a matter of* English law the court has no power to make an order which has these consequences." Lord Bridge added that unless there were some overriding principle derived from the jurisprudence of the European Court of Justice English law must prevail.

*Put like that legislatures* are vying with each other for supremacy. One must win, the other lose, in which case the loser naturally perceives a diminution of its parliamentary sovereignty. But that is entirely the wrong way of viewing the matter. Under the European Communities Act 1972 parliament chose to enact the Rome Treaty (incidentally every treaty which a nation signs and ratifies, and every *international organisation it* joins, represents a voluntary surrender of a fraction of its autonomy for which, not unnaturally, it hopes to get something in return of at least equal value). The 1972 act, first, renounced this country's power to legislate contrary to *Community* law. Second, it incorporated Community law into the corpus of UK law. In consequence there are not two rival systems of law. There are two legal systems intermingled to form one body of law established by different legislative root. Legislation and judicial decisions respectively from Brussels and Luxembourg since 1972 have become automatically part of the law of this country. That is what the United Kingdom parliament enacted and intended to happen.

# US FINANCE AND INVESTMENT



Glyn Genin

**Last rites of a junk bond financier: bidders attend the auction of Drexel Burnham Lambert equipment in New York**

The collapse of Drexel Burnham Lambert in February was the final symbolic nail in the coffin of the free-wheeling 1980s. **Martin Dickson** says Wall Street must come to terms with a new era of tougher competition and more circumspect assessment of debt.

## After the ball a big clean-up

AFTER the predators' ball... an excruciating hangover and a very messy job for the cleaners.

The US financial industry is in the throes of a severe retrenchment as the euphoria of the 1980s gives way to a sharp cyclical downturn. It is a classic aftermath to an era of wild financial excess.

The takeover spree is dead and the Wall Street banking houses and legal firms which profited mightily from it are now earning fees from the bankruptcy and financial reconstruction of companies which some of them helped assume crushing debt burdens.

The commercial banks which eagerly extended loans to highly-leveraged companies and flourishing real estate developers are counting the cost as their portfolios of non-performing loans grow bigger.

Some insurance companies, already facing fierce competitive pressures and consumer disenchantment, face questions over the valuations placed on their junk bond and property portfolios.

And the cost to the taxpayer of straightening out the savings and loans industry, which has been enfeebled by a scandalous combination of incompetence and knavery, continues to escalate. The Bush administration now estimates the cost of the clean-up at $300bn over the next 10 years, although some private analysts' figures range as high as $500bn.

The symbolic nail was driven into the coffin of the 1980s early this year with the collapse of Drexel Burnham Lambert, the securities house which pioneered the junk bond finance that fuelled the era's takeover boom.

But there have been signs of distress at many other of Wall Street's leading houses. Shearson Lehman Hutton, the second biggest, made a first-quarter loss of $915m — a record for a US securities house — as it took a large restructuring charge to cover more than 2,000 lay-offs, the closure of 67 branch offices, a pull-back from international operations and other cost-cutting measures.

Merrill Lynch made a $470m charge at the end of last year to cover its retrenchment plan, while both Kidder, Peabody and CS First Boston have had to turn to their parent companies for additional financial muscle after running into trouble in the junk bond market.

In some areas, Wall Street has been paring back since the stock market crash of 1987, which interrupted the long bull run, sent private investors fleeing for cover and cut trading volumes sharply. More than 20,000 jobs are thought to have been lost in the industry since then and most analysts believe the securities industry is still suffering from substantial excess capacity.

For while the stock market indices have resumed an upward path, with the Dow Jones Industrial Average breaking for the first time through the 2,900 barrier on the first day of this month, trading volume has been spotty. Investor sentiment is finely balanced between bulls and bears as the sluggish economy tries to rein back inflationary pressures, while maintaining very modest growth.

However, the continued strength of the takeover market in 1988 and early 1989 did much to buoy up Wall Street's profits and defer the day of reckoning. Last autumn, confidence in the bid spree finally cracked as Federated Stores, bought by Canada's Campeau Corporation in one of most outlandish of junk bond packages, ran into financial difficulties. Shortly afterwards, the managers seeking to take over United Airlines in a very high priced leveraged buy-out failed to raise the cash, prompting a mini stock market crash.

The junk bond market, the liquidity of which was always questionable, suffered a severe crisis of confidence as these factors and a growing number of bankruptcies among highly-leveraged borrowers weighed in on it. And a further blow to the supply/demand balance has been new regulations requiring the S&Ls to reduce their exposure to the junk market.

S&Ls were among the biggest purchasers of the high yield securities issued by Drexel and Mr Michael Milken, the former head of its junk bond department, who, in another postscript to the era, pleaded guilty last month to six counts of securities and tax felony.

Another potential problem in this area is the very extensive junk bond holdings of the US insurance companies, which are estimated to have on their books about 30 per cent of outstanding issues, valued at about $60bn. Regulators recently recommended that they be required to build much larger statutory reserves against them, and do it quickly, which could force some smaller companies to liquidate their portfolios.

Against this depressed background, and with commissions in traditional securities trading businesses wafer-thin, Wall Street houses have increasingly been turning to their so-called principal activities — trading or investing their own funds — to generate profits. Rather than tying up finance in capital-intensive, low margin business, they are seeking to move funds to areas offering the best return, such as trading more innovative financial instruments, such as warrants and options, in international markets. The investment banks are also hoping that international takeover business — particularly in Europe ahead of 1992 — will also shore up the flagging merger activity in the US.

The US commercial banks have also been hit hard by the slowdown in takeover activity, which has curtailed a big area of corporate borrowing and produced a growing area of problem loans: a large proportion of domestic commercial loans in the late 1980s went to highly-leveraged takeovers (HLTs). But now many of those clients have been unable to sell on assets of companies acquired, thus failing to generate sufficient cash to service their borrowings.

Even more serious for the banks is the crisis affecting the real estate industry in various regions of the country, involving numerous foreclosures, bankruptcies and a sharp drop in property values. Worst hit at the moment is New England, where the Bank of New England has had to change its top management and sell off $8bn of assets, but the problem is spreading and unlikely to ease soon. Meanwhile, the property market faces a large overhang, in the form of billions of dollars worth of property seized by the Federal Government as part of its thrift industry bail-out, which now has to be sold at a discount.

The big US money centre banks therefore face fresh loan quality problems just when they have put the worst of the Third World debt crisis behind them, most having bitten the bullet and made greatly increased provisions last year against developing country borrowings. Regulators say a number of them need to bolster their capital ratios.

Abroad, the US banks find they are declining in competitiveness in serving large multinational clients when compared with rich European and Japanese rivals, while at home the industry is clearly suffering from overcapacity. The 1990s are likely to be a period of extensive mergers, although this may not gather pace until the potential bidders have more buoyant share prices and the potential targets adjust their sights down from the heady valuations of the late 1980s.

The insurance industry too faces a period of consolidation. In the life sector, increased competition is posing a threat to smaller, less sophisticated operators and, with many public companies trading below book value, forecasts suggest the number of life companies will shrink considerably over the coming decade.

Pessimists are also forecasting a shrinking property/casualty sector, which has been hit by a great increase in catastrophe underwriting losses at a time when consumers are growing more and more militant in support of rate roll-backs and an increasing number of corporate clients are becoming self-insured.

Wall Street, too, is likely to face tougher competition in its core securities businesses as the regulations which have prevented commercial banks entering the field continue to crumble in a piecemeal fashion.

The securities firms have now dropped their opposition to a repeal of Glass-Steagall, the 1933 act which prohibits commercial banks from underwriting or selling stocks and bonds, but legislation to revise the measure is unlikely before next year at the earliest.

And given the malaise in the securities industry, and the commercial banks' own problems, there is hardly likely to be a rush to enter the business.

### IN THIS SURVEY

*Wall Street: a more sensible approach towards balance sheets* See Page 2



*Chicago Board of Trade: the bulk of new growth is in financial futures* See Page 6



*Editorial production: Roy Terry*
*Statistical research: Rivka Nachoma*

After their nerve-racking year, **Janet Bush** sums up the present mood in financial markets

# A more sensible approach prevails

THE US economy has decelerated, if not into an outright recession, then to a crawling pace but the underlying rate of *inflation* is still higher than the US Federal Reserve would like.

There is increasing concern about a credit crunch as commercial banks burned by their profligate lending to real estate and highly-leveraged takeovers pull in their horns.

Some private estimates of the costs of the bail-out of the thrift industry now go as high as $500bn and the budget deficit is deteriorating again.

The number of corporate bankruptcies is heading for unprecedented levels and those companies which remain healthy have long ago seen a cyclical peak in their profits.

Yet, despite all these theoretical hurdles, the equity market has surged to record highs this year.

The tone was set on the very first trading session of the year on January 2 when the Dow Jones Industrial Average jumped 56.95 points to 2,810.15.

After a relatively prolonged period of profit-taking – in turn because of fears of an out-and-out recession or higher interest rates in response to apparently persistent inflationary pressures early in the year – *the Dow started to climb* once again and started hitting a string of new records in May, culminating in a record of 2,935.89 on June 15.

During May, the equity market seemed to defy gravity, moving from record high to record high with no sign of severe profit-taking. Despite long-run concerns about the US economy, mutual fund managers talked about steady and enthusiastic buying by their clients and all that was on people's minds was when the market would hit the magic 3,000 mark.

Fidelity Investors, the largest US mutual fund manager, said that the flow of funds into equities during May was the strongest in three years and could not be passed off as a late reaction by individual investors to the spectacular *performance they were seeing* in major indices. Small investors had been investing steadily at least since 1989.

The celebration expected to accompany the Dow hitting 3,000 looked as if it would have to be put off on June 18 when the index of blue chips fell by more than 50 points, taking the index once again below the 2,900 mark.

As the market – including broad indices such as the Standard & Poor's 500 – rallied to all-time highs in May, optimism of further gains held sway. By mid-June, opinion was finely balanced about the market's prospects partly because of deeply divided views on the direction of the economy and interest rates.

US financial markets have all year moved mostly on interest rate considerations and *stocks have closely followed* bonds – the best indicators of the direction of rates.

In the early months of the year, the Treasury bond market moved sharply lower because of a surge in inflationary pressures at home and overseas where bond yields also rose sharply, providing stiff competition to the US market for international capital flows.

Bond yields jumped to above 9 per cent in late April from 8 per cent at the beginning of the year on concerns that the US Federal Reserve would tighten monetary policy in response to price pressures. *Underlying inflation appeared* to be stuck at between 4 per cent and 5 per cent, acknowledged to be too high by officials of the central bank.

In a year which has seen markets oscillate between fears of inflation and worry about a recession, sentiment has changed more than once. However, the most significant shift of opinion about the economy came after April's very weak employment report which suggested that the US economy was much weaker than had been thought.

Coupled with signs that inflationary pressures were abating, the financial markets bet that the Fed would soon lower interest rates and the May super-rally was under way. Treasury bond yields dropped to lows of around 8.30 per cent.

*Hopes of easier money* had receded somewhat by mid-June as signs of considerable robustness in the economy started to emerge in statistics from April and May. Bond yields started to edge higher again towards 8.50 per cent.

The rise overall this year in bond yields of around 50 basis points as well as record highs in the stock market strongly suggest that investors do not expect the US economy to fall into recession – quite extraordinary given the length of the present economic expansion.

Although growth has been sluggish this year with GNP growing at around 2 per cent, financial markets appear relatively confident that the US Federal Reserve will continue to be accommodative enough to sustain growth at anaemic, and hopefully, non-inflationary levels.

Economic fundamentals – if statistics tell a true story – should be roughly neutral for bonds and not particularly helpful to stocks which appear to be buoyed more by relief that the economy is chugging along with no serious disasters than by an abundance of good news.

What is notable about the performance of US markets so far this year is that some of the long-run and very serious concerns such as the deteriorating budget deficit and the savings and loan bail-out appear to have had little impact on confidence.

Bonds have shown occasional bouts of nerves because of the immense prospective supply to finance the Resolution Trust Corp's bail-out of thrifts and the attraction to *investors of overseas markets* such as West Germany and Japan but nerves have not translated into substantially higher yields.

Share prices have levitated despite some weak profits figures, a slow economy and a dearth of takeover and merger-related speculation after the collapse of the $200bn market in high-yield or junk bonds.

The demise of the junk bond market has been the most important story of the past year.

It started to implode last autumn when deep financial problems emerged in Mr Robert Campeau's junk-bond-backed retail empire, a crisis which eventually led to the bankruptcy courts.

Then there was the collapse of the original buy-out of UAL which signalled the beginning of a withdrawal by commercial banks from lending to highly-leveraged deals.

Nine months after those catastrophic events, there is no sign of recovery and Wall *Street has begun to believe* that the market will become no more than a marginalised, specialised forum for raising capital.

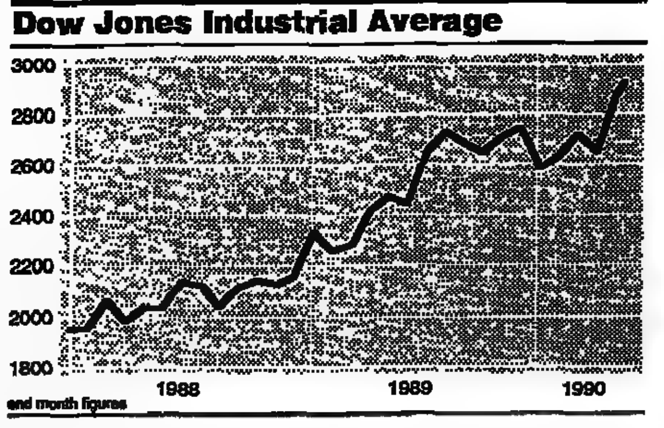
Thrifts, the most substantial buyers of junk bonds, were mandated to divest by the thrift bail-out law and insurance companies, the other major group of investors, are likely to face restrictions on their holdings.

With the bankruptcy of Drexel Burnham Lambert in February, the guilty plea by Mr Michael Milken, the founder of the junk bond market, and numerous defaults and bankruptcies among companies financed by junk bonds, some argue that this method of financing, probably the major force in shaping Wall Street and corporate America in the 1980s, has been discredited.

The long-run effects of these developments are yet to be seen on the economy and on more traditional financial markets. In the short-term, the collapse of the junk bond market has meant more cautious lending policies by banks, a cost-cutting squeeze on Wall Street and a more sensible approach towards balance sheets in corporate America.

*It has not*, however, led to a serious crisis of confidence in the fixed income as a whole. Nor has it stopped the equity market marching to new peaks.

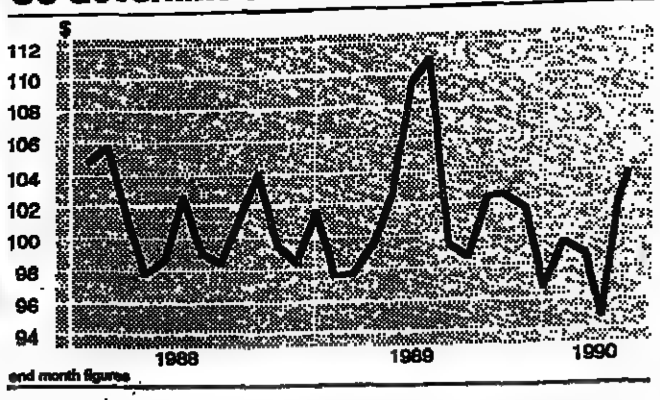
**Dow Jones Industrial Average**




Glyn Genin

**New York Stock Exchange: waiting for the Dow to hit 3,000**

**US Government 30-Year bond**




## INVESTMENT BANKS

# Mop-up of the 1980s mess under way

THE challenge facing Wall Street securities houses as the 1990s get under way could hardly be greater.

Not only do they face increasing competitive pressures in an environment where margins are often wafer thin but *they are also faced* with the need to slim down after the rapid expansion of the 1980s, as well as to mop up some of the mess created in the free-wheeling decade created by Reaganite deregulation.

A series of catastrophic events over the past few months has already forced investment banks into searching reviews of their strategy and several have begun extensive shake-ups of their structure and management.

In the past six months, Wall Street has seen the loss of thousands of jobs, bringing the total of redundancies since the October 1987 stock market crash to an estimated 20,000. Still, some industry experts believe capacity will have to be cut by perhaps another 25 per cent or 35,000 jobs to restore the industry's competitiveness.

While there was a boom in takeovers financed by high-yield debt, Wall Street was able to delay responding to a drop *in its* return on equity to scarcely 6 per cent in 1989 from around 50 per cent in 1980. However, the chickens finally came home to roost with the unravelling of the leveraged empire of Canadian real estate developer Mr Robert Campeau last autumn, the collapse of the original buy-out plan for UAL, the mini-stock market crash on October 13, the implosion of the junk bond market and the bankruptcy of Drexel Burnham Lambert.

In the months following these body blows, some trends which may set the tone of the 1990s have already become apparent.

Taking the example of some of the more successful Wall Street houses suggests that one way to survive the challenges of the 1990s is to focus aggressively only on those areas which are most profitable and not, in a popular Wall Street phrase, try to be "all things to all people".

Morgan Stanley, which outshone the rest of Wall Street with a return on equity of just under 28 per cent last year, is unashamed about focusing its business on those areas which are most beneficial to its bottom line.

Late last year, it told nearly half of its US institutional clients they were being moved to the individual investor department because they were not generating enough commissions to justify a full service.

Morgan Stanley is also an example of a Wall Street house which is extremely active in proprietary trading (trading on its own account as opposed to executing transactions for customers).

Some estimates suggest the company derives only around 10 per cent of its revenues from commissions and around 40 per cent from trading and investing for its own account.

Morgan Stanley is not alone in this direction. Salomon Brothers, for example, is active in trading for its own account and made more than $200m pre-tax from its securities business in the first three months of this year.

Another common element of the relative success of these two companies is their expertise in using derivative products such as futures, options and warrants.

This has been particularly profitable in overseas markets such as Tokyo where derivatives are relatively new and increasingly popular.

Not every Wall Street firm is as aggressively focused as *these but there has been a definite* move away from the 1980s' concept of the full-line, full-service firm.

This is evident in the recent reorganisation of Shearson *Lehman Hutton which decided* to separate its consumer businesses from its investment banking operation.

Its retail brokerage network and its asset management business will be run as one division and investment banking and capital markets will be combined under the famous name of Lehman Brothers.

That reorganisation represented a sea-change from the days when American Express, Shearson's parent, envisaged a diversified financial services empire within a single firm.

There is no doubt that the Wall Street firms of the 1990s will have to be more streamlined.

The 1980s bull market in bonds and equities encouraged an unprecedented build up of staff and overheads which is only now being tackled.

Merrill Lynch, for example, announced a record $470m restructuring charge in January against its fourth-quarter results, leaving it with the worst loss in 1989 in its history. Merrill had long been notorious for being overstaffed and did not cut costs significantly after the October 1987 crash despite a slump in retail investor participation, so important to its overall business.

The traumas at Shearson Lehman Hutton over the past few months can largely be traced back to the overambitious merger with E.F. Hutton in early 1988 which landed the company with an insupportable rise in its costs and led to the recent injection of $1.85bn of fresh capital from American Express.

American Express, which had intended to reduce its 61 per cent stake in its securities subsidiary to under 50 per cent and so limit its exposure to the increasing volatility of earnings in the securities industry, has been forced to take 100 per cent control of Shearson and has started to place prominent American Express executives in key positions in the securities operation.

It is not the only disenchanted parent of a securities firm.

General Electric took full *control of its brokerage unit* Kidder, Peabody earlier this *year, relieving its subsidiary of* $750m of illiquid securities and loans.

The enthusiasm among non-financial companies such as General Electric and retailer Sears, Roebuck into the securities industry by buying stakes in brokerage houses has clearly waned and will not be a popular route in the 1990s.

Another important trend which has emerged is a change in the way securities houses finance themselves.

In the 1980s, for example, brokerage houses habitually funded their day-to-day operations with very short *term borrowings in the commercial* paper market. The rapid collapse of Drexel Burnham Lambert, the creator of the high-yield junk bond market which filed for bankruptcy in February, has accelerated a move towards longer-term financing through the debt markets.

Drexel was heavily dependent on short-term loans from commercial banks and went under in a matter of days when the banks refused to roll over its paper.

Since then, banks, which are also heavily exposed to weak real estate markets and loans to highly-leveraged companies, have become much more cautious about lending to securities houses or do so only on dearer terms.

One of the most rapid changes in the securities business has been the virtual stagnation of the junk bond market and a dramatic drying up of mergers and acquisitions – *the areas which made millions* for Wall Street in recent years.

*According to Merrill Lynch*, Wall Street made only $10m in fees from junk bond underwriting so far this year compared with $360m in the same period in 1989.

Advisory fees for takeovers have also sharply diminished. Fuelled largely by the availability of junk bond financing, there are far fewer takeovers and leveraged buy-outs.

With these lucrative businesses as moribund as the junk bond market itself, the emphasis of the larger Wall Street houses has clearly moved overseas.

More than 50 per cent of *mergers and acquisitions* in which Morgan Stanley is involved, for example, are now done in Europe as opposed to the US compared with 30 per cent just over a year ago.

The repositioning of European companies for economic integration in 1992 affords new opportunities as do the enormous changes in Eastern Europe.

Some US securities houses, with well-developed international operations, should be well positioned to do business in this new environment.

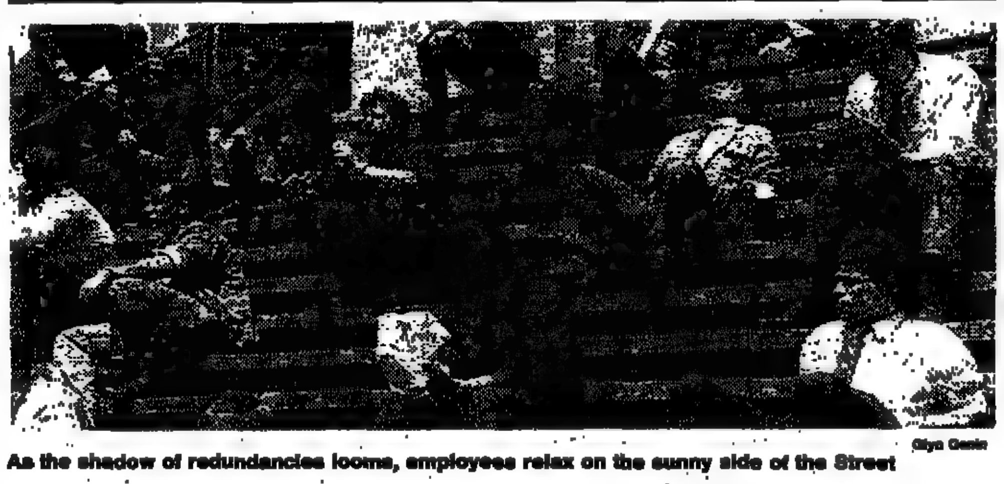
While the 1980s may have spawned some ugly excesses, the decade was also characterised by the inventiveness of US firms in creating and using sophisticated financing techniques and derivative products, skills which may find enthusiastic demand from overseas clients.

**Janet Bush**

**TOP UNDERWRITERS: ALL DOMESTIC NEW ISSUES**

| Manager | 1989 ($m) | % of market | No of issues | 1988 ($m) | % of market | No of issues |
|---|---|---|---|---|---|---|
| Merrill Lynch Capital Markets | 45,387.3 | 14.7 | 293 | 40,400.3 | 14.5 | 284 |
| Goldman Sachs | 41,911.6 | 13.6 | 214 | 37,391.0 | 13.6 | 238 |
| First Boston | 37,746.8 | 12.3 | 173 | 30,464.3 | 10.9 | 194 |
| Salomon Brothers | 32,030.7 | 10.4 | 180 | 34,088.9 | 12.2 | 151 |
| Morgan Stanley | 28,826.8 | 9.4 | 169 | 24,263.9 | 8.7 | 144 |
| Shearson Lehman Hutton | 25,769.9 | 8.4 | 185 | 27,025.0 | 9.7 | 160 |
| Prudential Bache Secs | 17,754.8 | 5.8 | 75 | 11,267.2 | 4.0 | 69 |
| Bear Stearns | 17,046.3 | 5.5 | 67 | 9,463.1 | 3.4 | 45 |
| Drexel Burnham Lambert | 16,950.1 | 5.5 | 93 | 20,821.1 | 7.5 | 164 |
| Kidder Peabody | 8,546.1 | 2.8 | 43 | 7,280.3 | 2.6 | 57 |
| Subtotal | 271,972.3 | 88.4 | 1,471 | 242,976.1 | 87.1 | 1,596 |
| Industry totals | 307,718.6 | 100 | 2,102 | 278,880.0 | 100 | 2,233 |

Source: Securities Data Company



Glyn Genin

**As the shadow of redundancies looms, employees relax on the sunny side of the Street**

**TOP FINANCIAL ADVISERS 1989**

| Company | $m | Rank | % of total | No of deals | Rank | % of deals |
|---|---|---|---|---|---|---|
| Morgan Stanley | 107,521.1 | 1 | 28.7 | 124 | 4 | 2.4 |
| First Boston/CSFB/CS | 73,632.8 | 2 | 19.7 | 149 | 2 | 2.9 |
| Wasserstein Perella | 71,816.8 | 3 | 19.2 | 44 | 25 | 0.8 |
| Goldman Sachs | 58,736.4 | 4 | 15.7 | 136 | 3 | 2.6 |
| Drexel Burnham Lambert | 56,573.8 | 5 | 15.1 | 116 | 5 | 2.2 |
| Merrill Lynch | 50,933.7 | 6 | 13.6 | 98 | 7 | 1.9 |
| Shearson Lehman Hutton | 49,791.0 | 7 | 13.3 | 157 | 1 | 3.0 |
| Lazard Freres | 49,631.0 | 8 | 13.3 | 39 | 30 | 0.7 |
| Dillon Read | 44,606.5 | 9 | 11.9 | 49 | 20 | 0.9 |
| S.G. Warburg | 31,496.5 | 10 | 8.4 | 75 | 9 | 1.4 |
| Kleinwort Benson | 26,434.8 | 11 | 7.1 | 57 | 14 | 1.1 |
| Salomon Brothers | 23,479.4 | 12 | 6.3 | 100 | 6 | 1.9 |
| Wertheim/Schroder Group | 22,180.5 | 13 | 5.9 | 92 | 8 | 1.7 |
| Bankers Trust | 17,529.3 | 14 | 4.7 | 64 | 11 | 1.2 |
| Lazard Brothers | 17,463.1 | 15 | 4.7 | 61 | 13 | 1.2 |

Source: Investors Dealers Digest

**Roderick Oram** looks at the restructuring game

# Scramble for the spoils

| LARGEST INDUSTRIAL BANRUPTCIES (ranked by total assets) | | |
|---|---|---|
| Date filed | Company | Total assets ($000) |
| April 12, 1987 | Texaco | 34,940,000 |
| January 15, 1990 | Campeau (Allied/Federated) | 11,414,000 |
| September 26, 1983 | Baldwin-United Corp | 9,380,000 |
| June 21, 1970 | Penn Central Corp | 6,851,000 |
| September 24, 1989 | Lomas Financial Corp | 6,650,000 |
| July 17, 1986 | LTV Corporation | 6,307,000 |
| July 14, 1989 | Southmark Corp | 5,000,000 |
| March 9, 1989 | Eastern Air Lines | 3,773,000 |
| February 13, 1990 | Drexel Burnham Lambert Group | 3,698,300 |

Source: Beard Group

MORE US companies than ever before are winding up in bankruptcy courts, providing rich pickings for a swelling army of bankers, investors, traders, advisers and other players of the restructuring game.

So far much of the spoils are going to long-standing but often small-scale practitioners of this complex and arcane business. Newcomers are less successful, finding that financial muscle is no substitute for sound judgement born of accumulated experience. Among the novices are some of the big Wall Street investment firms scrambling to find their next boom business.

To a large extent, Wall Street helped create the burgeoning opportunities in distressed or bankrupt companies. The leveraged buy-out craze of the late 1980s, Wall Street's previous bonanza, left a lot of companies with more debt than they could carry.

The lucky victims are getting a new lease on life by restructuring their finances and operations with the help of advisers but without the complexities of court proceedings. The hard-core cases are needing bankruptcy court protection from their creditors while they work out survival or liquidation plans.

**The number of companies filing for bankruptcy court protection hit 63,227 last year against a mere 7,814 in 1981**

Either way, "the LBO phenomenon is giving us more work than we know what to do with," said Ms Malva Rabinowitz, head of the restructuring practice of Deloitte & Touche, the accountants.

Glyn Genin

The pace continues with failures such as Greyhound

Besides debt, a welter of other reasons can also drag down companies. Some corporations are basically sound but suffer an external shock such as a huge liability settlement. Others have been broken by bad management or markets.

"The bottom 15 to 20 per cent of companies in any industry are likely candidates" for some form of restructuring help, estimates Mr Daniel Scouler, a colleague of Ms Rabinowitz.

Of the 50 largest US bankruptcy cases, 24 were opened in the past two-and-a-half years, according to the Beard Group, a Washington firm that tracks the bankruptcy business. Volume is also growing at an astonishing pace. The number of companies filing for bankruptcy court protection hit 63,227 last year against a mere 7,814 in 1981. The pace continues this year with failures such as Greyhound, the famous bus line.

One hotbed is the Southern District of New York, the judicial region covering Manhattan and neighbouring area. This January alone, 484 cases were filed, a 52 per cent increase from a year earlier.

Some failed companies with scant geographic links to New York "go through all sorts of creative links to file here because the judges are notoriously pro debtor," said one bankruptcy specialist.

Another good reason is the high concentration of legal and advisory talent based in New York City. The largest law firm in the field is Manhattan-based Weil, Gotshal and Manges with more than 90 lawyers in its bankruptcy practice.

With complex legal proceedings determining the outcome of bankruptcies, investors find failed companies very tricky to play profitably. It is usually difficult to forecast the final terms of the court-approved plan for paying off creditors. Not only do various classes of creditors use every legal trick in the book to jockey for advantage, but judges range from "the legalistic to the constructive", said a bankruptcy specialist.

Trading in securities, financial claims or other obligations of distressed or bankrupt companies "is all art form. It is a touchy-feely judgement about whether people will settle," said Mr Christopher Beard, head of the Beard Group. Many investors "look for a 30 per cent annualised return but they can just as easily get creamed."

Most Wall Street investment banks have been trading for a long time in such obligations but it is a perilous business because of the uncertainties. Consequently quotes of securities' prices can vary enormously from one trading desk to another at the same moment.

Beyond trading is a fast growing business of advising distressed companies. Again, many of the big Wall Street firms have long had small departments for this service but now they are expanding them rapidly.

"We're working with companies whose capital structure doesn't match their cash flow," said Mr Daniel Celentano, head of Bear Stearns' Financial Restructuring Group. Typically, this is with distressed rather than bankrupt companies and on an advisory basis only.

Bear Stearns sometimes uses its own capital to participate as a principal in a financial restructuring. It is highly selective, though, because "not every problem is an opportunity," Mr Celentano added with understatement.

The firm has not raised money from outside investors for a distressed companies' fund. Others that have tried have found investors highly aware of bankruptcies uncertainties. They are much more reluctant to stump up money than they were for leveraged buy-outs.

A prime reason for investors and Wall Street firms to be cautious about taking an equity stake in a distressed or bankrupt company is the long wait for the pay-off. Typically it is five to seven years, said Ms Mary Bechmann, a partner in Weiss, Peck & Greer. The small bankruptcy specialist, a subsidiary of Lloyds bank of the UK, has 20 year's experience in the field.

Very few of the big Wall Street firms spotted the bankruptcy opportunity early. One that did was Rothschild. "Four or five years ago we came to the conclusion we'd like a counter-cyclical business to our mergers and acquisitions activities," said Mr Wilbur Ross, a senior managing director. Given the high number of over-leveraged buy-outs at the time, it decided that fixing the basket cases would become a likely business. It is now involved in some way in a third of all the big current bankruptcy cases.

Other firms are still trying to build up their expertise. "There is probably not enough experienced people to go around," said Mr Beard. Some firms are just shunting underemployed investment bankers from withering leveraged buy-out departments into restructuring groups.

Meanwhile it is the old hands like Weiss, Peck & Greer that already have the skills and experience for one of the financial sector's toughest transactions – the turnaround buy-out. Becoming the owner of a badly damaged company is not something it does lightly.

"We look at 2,000 companies a year but we only do a maximum of two or three deals," Ms Bechmann said. "It takes a long time to structure and nurture them."

Given the complexities and long time frame of bankruptcies, they may prove to be one of the toughest nuts the big Wall Street firms have tried to crack.

**Martin Dickson** discusses mergers and leveraged buy-outs

# The lights are going out as Wall Street wields the axe

THE LIGHTS are going out all along Wall Street as the New York investment banks scale back their merger and acquisition departments in response to this year's slump in US takeover activity.

The volume of announced takeovers in the US was down 61 per cent in the first five months of this year, according to figures compiled by Securities Data, as the country reins in from the junk-bond financed bid boom of the 1980s.

Takeover deals are still being done, but the market has changed greatly in the scale and nature of successful acquisitions since the collapse began last autumn.

**Highly-leveraged buy-outs can still take place, but with so many deals running into trouble lenders will now be more circumspect**

The 1980s boom was fuelled by the rise of the market in junk bonds – high-yielding, low-grade corporate debt used to finance takeovers – and the end of the era was signalled by a crisis of confidence in junk last September, when Federated Stores, part of the highly-leveraged Canadian Campeau group, began running into severe financial difficulties.

The junk market, which relied for its always questionable liquidity on a handful of investment banks, began to implode, and with issues now trading at a fraction of their nominal value that avenue of finance has been closed to the potential bidder.

In a typical late 1980s US bid, the predator company would finance its highly leveraged offer through a combination of bank loans and a "bridging loan" from an investment bank – a quickly obtainable line of credit which would then be refinanced through the issue of junk bonds.

But with junk bonds gone, so, too, are the cast of bid financiers who employed them to make bids and then dismember the acquired company, using the proceeds to pare down their debt to a manageable level. Gone, too, are the huge leveraged buy-outs put in place by management as a defence against the raiders.

Takeovers are still taking place, but they tend to be mounted by companies with good strategic arguments for a deal, rather than financiers expert at breaking up businesses; they will be financed by bank debt, or even equity, rather than junk bonds; and they will tend to be agreed deals rather than hostile offers.

Highly-leveraged buy-outs can still take place, but with so many deals of the late 1980s now running into trouble because of difficulties in debt servicing, lenders will now be much more circumspect in their credit analyses, and will typically demand a much higher proportion of equity to debt than the 1:10 relationship common before now.

An important test of the buy-out market will come in August, which is the deadline for an attempt by employees of UAL, parent company of United Airlines, to take the business private. If successful, the bid would create by far the largest employee-owned company in the US. However, a management-led buy-out attempt last year – albeit at a much higher price – collapsed when finance could not be secured, and observers give the present bid only a 50 per cent chance of success.

The disappearance of the leveraged hostile bids from the market has created fresh opportunities for foreign companies to expand in the US without facing costly bidding wars. Many of the largest takeovers mounted since the start of the year have involved foreign companies, largely from Britain, France and Japan.

One of the most recent, and indicative of market trends, saw Tomkins, the diversified UK industrial group, agree to acquire Philips, the Ohio-based manufacturer of windows, bathtubs and other equipment.

Philips tried to mount a leveraged buy-out at the start of this year but the deal collapsed in January when it could not line up the necessary financing for the deal. Tomkins then moved in and agreed to buy the business for $18.50 a share, well below the $25.50 a share level at which the buy-out was first mooted.

At the same time, many analysts expect an increase in the tempo of west to east transatlantic deals as US companies focus more on the opportunities in Europe, with the creation of the single European Community market and the ferment in East Europe.

These trends will tend to favour those Wall Street investment banks which have well-established client lists among blue-chip US companies and have spent the 1980s building up strong international expertise in merger and acquisition work.

Among the best-placed are likely to be Goldman Sachs, Morgan Stanley and Lazard Freres, which have very strong client lists and have emerged from the 1980s with reputations for success in takeover work, without too many of the excesses and embarrassments which have hit some of their rivals.

Morgan and Goldman have spent the latter half of the 1980s putting in place significant European takeover teams, while Lazard Freres New York has access to this through its links with Lazard Freres in Paris and Lazard Brothers in London.

**Many analysts expect an increase in west to east transatlantic deals as US companies focus more on the opportunities in Europe**

The going is likely to be tougher for rivals such as CS First Boston, Salomon Brothers and Shearson Lehman – the investment banking arm of which is now reverting to its former name of Lehman Brothers in an effort to boost confidence in the division.

Shearson Lehman was badly hit by the collapse of the junk bond market, as was CS First Boston, which built itself into one of the leading takeover advisers of the 1980s, only to see that position eroded by staff defections towards the end of the decade.

The main walk-out from First Boston led to the creation of Wasserstein Perella, an aggressive corporate finance boutique that has expanded extremely rapidly and is still doing so in Europe. However, the lack of deals has led to questions on Wall Street how Wasserstein will cope with the large overheads involved in establishing its international presence. Certainly, elsewhere on Wall Street the trend is for cuts in investment banking staff and there could yet be a lot of axe-wielding to come.

| MERGERS & ACQUISITIONS ($m) | | | |
|---|---|---|---|
| Year | $ value | Base* | Total** |
| 1980 | 44,345.7 | 890 | 1,889 |
| 1981 | 82,617.6 | 1,126 | 2,395 |
| 1982 | 53,754.5 | 930 | 2,346 |
| 1983 | 73,080.5 | 1,077 | 2,533 |
| 1984 | 122,223.7 | 1,084 | 2,543 |
| 1985 | 179,767.5 | 1,320 | 3,001 |
| 1986 | 173,136.9 | 1,468 | 3,336 |
| 1987 | 163,686.3 | 972 | 2,032 |
| 1988 | 246,875.1 | 1,149 | 2,258 |
| 1989 | 221,085.1 | 1,092 | 2,366 |
| 1st qtr 1990 | 34,000.3 | 177 | 597 |

*Base: the number of transactions which disclosed a purchase price
**Total: Net merger-acquisition announcements
Source: Mergerstat Review

**Alan Friedman** reviews the difficult times ahead for commercial banks

# Complete strategic rethink called for

THIS year is proving to be a difficult one for many US commercial banks. It is a time of downgraded credit ratings, industry-wide overcapacity, tightening margins, a slowdown in corporate lending, substantial increases in non-performing real estate loans and the likelihood that earnings will suffer from woes in the real estate market or from other sectors now plagued by sluggish growth or outright recession.

This year is also a time for strategic reappraisals and asset disposals at several US banks, including Citibank and Chase Manhattan, the two biggest in terms of assets.

Meanwhile, it is no small irony for these traditionally leading US commercial banking institutions that they are being forced by domestic problems to retrench just as European and Japanese banks are becoming ever more global in their approach to customers and markets. This is particularly true in the run-up to the creation of a single European market in 1992 where American banks lag behind their European counterparts. The same is true of eastern Europe.

While capital-rich Japanese banks, West German giants such as Deutsche Bank and Commerzbank and French banks such as Credit Lyonnais plough ahead with eastern European expansion plans, some big US institutions are so capital-poor and busy with domestic loan losses that they are literally being left behind.

**Big US institutions are so capital-poor and busy with domestic loan losses that they are being literally left behind**

The first quarter of 1990 saw an average 14 per cent drop in earnings at US commercial banks, with an increasing number beginning to recognise the depth of their problem real-estate loans. The problem of Latin American debtors, while not exactly vanquished, is generally considered to be diminished now that most leading commercial banks – except for Citibank, which claims it will begin to recover LDC (less-developed countries) debt by 1992 – have made heavy provisions for loan losses.

The slump in real-estate markets at first appeared to be a regional affair, with New England banks in particular suffering from the recession in the north-eastern part of the States. But now the performance of banks in New York, New Jersey, Maryland and other Eastern seaboard states is proving that real estate non-performing loans are a wider problem.

Citicorp, the nation's biggest commercial bank and largest commercial real estate lender, has been especially hit by the real estate problem. First quarter earnings of $231M were less than half the level during the equivalent period of 1989.

Mr John Reed, chairman of Citicorp and the former boy wonder who built up the bank's profitable consumer banking business in the 1980s, admits that there has been a deterioration in the quality of assets, but continues to cast the real estate issue as a cyclical affair that will only have a short-term negative impact on earnings. Yet Mr Reed and other bankers agree that 1990 is a year of "significant adjustment for the system".

It was considered something of a sensation this Spring for Standard & Poor's and Moody's, the two main credit-rating agencies, to downgrade the rating on mighty Citicorp's $31bn of senior long-term debt, citing real estate losses as a key reason. Yet Citicorp was only one of nearly 30 banks to be downgraded.

Chase Manhattan's chief executive – Mr Thomas Labrecque – said recently that "it is no secret that these are difficult times for the banking industry". He should know. Chase said recently it was completing an internal review that took stock of slackening demand for its corporate lending services and would lead to a substantial restructuring.

**The go-go 1980s saw such a stampede towards non-bank financing that many banks are now overstaffed**

Chase, which has also had its credit rating lowered because of the real estate slump, is planning to sell off various assets to raise funds, including its operational headquarters in lower Manhattan. The bank, which suffered a $665m loss in 1989 and a 67 per cent tumble in net profits in the first quarter of 1990, is expected to cut 2,000 to 3,000 jobs by year-end.

Chase's decline in corporate lending is a problem around the country. The go-go 1980s resulted in such a stampede toward non-bank financing that many commercial banks have found themselves significantly overstaffed. At least some banks were able to cash in on management buy-out and take-over fever by supplying bridging loans and other services related to highly leveraged transactions. In the 1990s – the decade of "unwinding" in some of the more overextended regions of corporate America – this business is no longer available.

Many US commercial banks are thus seeking new vocations in life, wondering how to generate more revenues at a time when traditional activities are on the wane. Yet another irony for the banks is that just as the walls of the famous Glass-Steagall Act and other laws keeping banks from engaging in securities business are showing signs of crumbling the very business that may soon be allowed is drying up.

To make matters worse, contradictory statements have been made by US officials even on something as basic as whether or not there is a credit crunch.

Earlier this year bankers complained that excessive regulatory zeal was causing them to restrict lending and classify more debt as non-performing. Then, in May, Alan Greenspan, chairman of the Federal Reserve Board, joined other regulators in calling for bankers not to worry too much about regulatory restrictions and to carry on lending.

A month after Mr Greenspan reassured bankers and tried to dispel notions of a credit crunch Mr Robert Mosbacher, the Secretary of Commerce, said the US was caught in a serious credit crunch that extends well beyond the real estate sector and seems to be worsening. Mr Mosbacher dismissed the idea that the credit crunch is concentrated in special regions such as New England, saying "it's pretty much across the whole country".

Amid all of this confusion and uncertainty the problem of retrenchment on an international scale is growing. To strengthen capital requirements at home, realise cash or simply lower overheads several US banks are reducing their presence in Europe and Asia.

Chase is planning to sell some European property soon. Citibank claims it will make a strategic acquisition, possibly in the UK, but the bank's European strategy has amounted to little even after more than five years of trying.

The Bank of Tokyo, meanwhile, paid $500m recently for the Bank of New England's leasing division.

Mr Reed of Citicorp told Congress recently that many American banks are withdrawing from the international market and the US share of the global financial services business is slipping.

He said the American economy will suffer if US financial institutions continue pulling out of foreign markets and warned that American businesses will grow more dependent on foreign lenders.

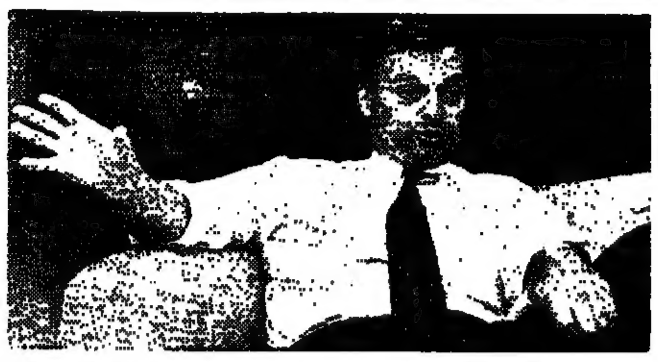
**Many banks are wondering how to generate revenues at a time when traditional activities are on the wane**

The solution of many bankers is to engage in what Mr Reed calls a "complete rethinking of our approach to ensuring the safety and soundness of depository institutions". Unfortunately rethinks, strategic reviews and such take a long time and in the case of US commercial banks come at a time of sluggish economic growth in the US. It is hard to see US commercial banks bouncing back on to the world stage in the short-term.

**PERFORMANCE OF SOME OF THE TOP US BANKS – $m (loss)**

| Bank | 1st qtr 1989 net income | 2nd qtr 1989 net income | 3rd qtr 1989 net income | 4th qtr 1989 net income | 1st qtr 1990 net income |
|---|---|---|---|---|---|
| Citibank | 529 | 395 | 358 | (784) | 231 |
| Chase Manhattan | 132 | 137 | (1,109) | 174 | 44 |
| Bankamerica | 275 | 304 | 254 | 270 | 278 |
| J P Morgan | 180 | 206 | (1,815) | 154 | 399 |
| Security Pacific | 179 | 184 | 185 | 192 | 188 |

Source: Company reports



Citibank's John Reed (above) admits there has been a deterioration in the quality of assets. Right: Chase Manhattan's Thomas Labrecque

**PROPERTY LENDING as at March 31, 1990**

| Bank | Total real estate loans outstanding ($bn) | Non-performing real estate loans ($m) |
|---|---|---|
| Citicorp | 12.6 | 1,300 |
| BankAmerica | 21.2 | 395 |
| Chase Manhattan | 9 3 | 884 |
| Chemical Banking | 7.5 | 1,300 |
| Manufacturers Hanover | 2 7 | 100 (estimate) |
| First Chicago | 4.5 | 375 |
| Bankers Trust | 2.6 | 118 |

Source: Company reports

PROPERTY LENDING

# The thrill has vanished

THE US commercial property market is in a sorry state. As a result, so are a number of real estate loans.

This is not the case everywhere – for there are still regions of the US such as Chicago and parts of the Pacific Coast that are holding up – but it is certainly the spreading pattern from New England to the mid-Atlantic states and throughout the Southwest. The last time the US experienced such a slump in property values, old hands recall, was in the mid-1970s.

The health of real estate loans reflects the state of the market. Cuts in bank lending, whether real or perceived, last month elicited a highly unusual and public statement from top regulators – including Alan Greenspan of the Federal Reserve – urging bankers not to stop lending because of fear of increased scrutiny.

Non-performing loans have increased sharply in recent months and analysts say there is more bad news to come. Ratings agencies have accordingly downgraded some 30 banks since the start of the year, frequently because of loan problems that are substantially based on the real estate crisis in New England or in other regions of the Eastern seaboard, the hardest hit market.

In some ways what is happening to the balance sheets of several big money centre banks is a rough form of financial justice. Real estate lending, as a recent study by Salomon Brothers noted, was the engine of bank loan growth between 1984 and 1989. As such this led to huge additions of supply "when most markets were already either overbuilt or were approaching overbuilt conditions".

What happened in the latter part of 1980s was that loan growth in traditional markets such as the corporate sector slowed significantly as the securities sector – and the now notorious junk bond sector – offered corporate fundraisers a seemingly more attractive deal. The result, according to Salomon Brothers, was that real estate lending amounted to a staggering 64 per cent of the growth in total loans between 1984 and 1989. In other words, in just five years real estate came to represent 37 per cent of all outstanding US bank lending, up from 25 per cent in 1984.

This 1980s madness in commercial real estate development is being paid for today, by developers, agents, speculators and by their bank backers. The slow-motion downfall of Donald Trump – and he will have fallen in the eyes of the American public no matter what kind of rescheduling of his $2bn of debts he wangles – is the most obvious and pop culture evidence of what has happened to the go-go property developers of the last decade. Mr Trump's main bankers – Citicorp, Chase Manhattan, Bankers Trust and Manufacturers Hanover – are now more concerned about grabbing more Trump collateral than much else. Yet these were the banks that made vast loans to Mr Trump in recent years *without* apparently demanding enough security.

The big money centre banks are paying for their own real estate loan binge just as smaller regional institutions such as the crisis-stricken Bank of New England (BNE) already have. The situation varies from bank to bank and from region to region, with BNE standing out as one of the worst hit by real estate losses. The original real estate loan losses began in the 1980s in places such as Texas and Arizona. Conditions in New England became problematic for bank lenders around the start of 1990; they have since worsened. Now the talk is of real estate problems mounting in places as far flung as New York, Baltimore, Atlanta and even Los Angeles.

Citicorp, the biggest commercial property lender in the United States with a total real estate loan book of $12.6bn, is now sitting on $1.3bn of non-performing real estate loans. What is more, the bank has admitted that it is likely to face a 40 per cent jump in the size of its non-performing real estate loans between now and the end of the year: that means a further $500m to $600m of non-performing real estate loans. Chase Manhattan, the second largest US commercial bank, also had close to 10 per cent of its commercial property loans classified as non-performing at the end of the first quarter of the year, some $884m worth in all. Chemical Bank's non-performing real estate loans amounted to $1.3bn, a whopping 17.3 per cent of its total real estate loan portfolio.

All the above banks have had their credit ratings on senior long-term debt downgraded this spring by Standard & Poor's and Moody's, the two leading rating agencies. All these banks, and others, are likely to suffer at least a short-term negative impact on earnings. And the outlook for the commercial property market in major urban centres is not encouraging.

The national vacancy rate in the office market is 19 per cent and analysts say it could rise above the 20 per cent mark before the year is out. In places such as Manhattan commercial real estate prices (rentals and leasing) have declined by 10 to 15 per cent over the past 15 months and are expected to fall another 5 to 10 per cent over the next year. The feeling is that 1990 will be the year the market bottoms out, while next year will be a time of continued weakness or recovery.

The banks are thus trying to take their "hits" (as bad debt provisions are colloquially referred to) as soon as possible, build up reserves and brace themselves for leaner times. When it comes to bank lending and real estate, as the analysts from Salomon Brothers have jauntily put it, the thrill has definitely gone.

**Alan Friedman**

**Barbara Durr** looks at Chicago's beleaguered futures exchanges

# Potentially crippling attack

CHICAGO'S futures exchanges, already battling to maintain their world market share, face a potentially crippling new regulatory onslaught from Washington. If the US Treasury Secretary, Mr Nicholas Brady, has his way, regulatory authority over stock index futures will pass from the Commodities Futures Trading Commission (CFTC) to the Securities and Exchange Commission (SEC).

Chicagoans warn that the move, which would be accompanied by SEC supervision of margins and which is likely to mean margins would be raised, could bring a significant drift of futures business to other exchanges around the world. Business in Chicago would not only be more cumbersome, but more expensive.

Another unwelcome change the Treasury Department's legislation would bring is to allow off-exchange, unregulated trade in futures. It would drop the clause giving exclusive authority to the CFTC over financial instruments with the character of futures as well as the requirement that such instruments be traded on a recognised futures exchange. This raises, in the words of Senator Patrick Leahy, the Democratic chairman of the Senate Agriculture Committee which oversees the CFTC, "a hornet's nest of legal uncertainties".

Chicago, the birthplace of financial futures, still claims about half the world's futures business, but its share was more than 70 per cent in the early 1980s. This declining share is in a market that has been mushrooming. Since 1985, world futures trading has grown by more than 60 per cent. New exchanges in London, France, West Germany, Tokyo, Brussels and Australia have been biting into Chicago's once near-monopoly.

Financial futures have accounted for the bulk of all the new growth. In the Windy City, financial futures represent 80 per cent of the trading volume at the Chicago Mercantile Exchange (CME) and 75 per cent of the trading at the Chicago Board of Trade (CBOT). The leading contract at CME is for the Standard & Poor's 500 stock index future, and at the CBOT the top contract is for US government bonds.

CME's Globex system: due to marry CBOT's Aurora

Glyn Genin

The growth has come as more and more institutional investors lose their resistance to futures. The ability to hedge financial risks on currency fluctuations, stock portfolios and interest rates has proved an irresistible lure to such investors. Mr Barry Lind, chairman of Lind-Waldock, the largest retail futures company in the United States, said, "People who wouldn't talk to us 10 years ago are now our biggest customers."

And, for institutional as well as individual investors, one of the fastest growing investment vehicles in the US is now commodity futures funds, in essence mutual funds based on futures instead of equities. The total in managed futures funds has soared to an estimated $8.5bn from $500m 10 years ago.

Part of the old resistance to futures trading was ignorance but an important part was also the industry's image of being one step away from roulette. Unfortunately for the Chicago exchanges, this tawdry image was once again revived and embellished following the Federal Bureau of Investigation probe that brought fraud indictments against 47 traders and one clerk last year.

Yet, despite the poor image, futures trading volumes have continued to rise in Chicago. During the first five months of 1990, total combined trading volume at the CBOT and the CME in futures and options on futures rose 6.5 per cent, to 108.9m contracts from 102.2m, compared with the same period last year.

The federal investigation of futures trading fraud, which continues, forced the exchanges to stiffen considerably their surveillance procedures and pay greater attention to violations of trading rules. In the raucous pits, this has meant, for example, that practices traders once considered acceptable – even if formal rule violations such as a bit of trading after the bell – have now been abandoned.

The first of three trials of indicted futures traders is now under way and could set important precedents for the standards by which the accused are finally judged.

The CFTC, meanwhile, has handed down a tough ruling on a long-running case against Mr Brian Monieson, a former chairman of the CME, and his company, GNP Commodities, a CME clearing member. The CFTC fined Mr Monieson and his company $500,000 each and ejected them from the futures industry. What has made this case controversial is that Mr Monieson is not accused of fraud, but in essence of not policing adequately the fraudulent activities of two of GNP's brokers.

The judgement has been called overly harsh by industry leaders because they feel it is extremely difficult for companies to monitor all their staff all the time. It appeared to be an instance of the CFTC attempting to appear to be the tough regulator to gain clout in its battle against SEC encroachment. The case is being appealed.

To help clean up further their acts, the CBOT and the CME are collaborating on developing a hand-held computer terminal that will record transactions electronically and replace the old hand-written trading cards. Improving the audit trail of trades has been one of the main demands of the CFTC since the investigation.

That agreement heralded a new era of co-operation between the two rival exchanges. Last month, the CBOT finally threw in its lock with the CME on a global, after-hours electronic trading system. The two exchanges had been devising separate systems, but the CME's Globex will now marry the CBOT's Aurora.

Globex, developed for the CME by Reuters, was the more advanced of the two systems. Although it was due to be launched this summer, the start-up date has been pushed back to at least November because of the new need to weld the two systems together. This chore may prove somewhat tricky given that the two systems are conceptually antithetical: Globex matches trades electronically, Aurora reproduces the pit and requires manual selection of trading partners.

The final system, however, promises to boost Chicago's fortunes given that its products can then be traded around the world even while silence reigns in the trading pits. Of special importance to the future success of Globex/Aurora was Japan's decision in late May to allow Globex terminals. Britain has also approved their use. Paris's Marche a Terme International de France (Matif) will be a partner exchange, meaning its products can also be listed, and the Australian and West German exchanges are also queuing to sign up as partners.

With Globex functional, Chicago may be able to fend off further encroachment of its world market share in futures, but ironically its competitive edge could be blunted by those in Washington who so frequently tout the free market.

| PROPERTY/CASUALTY INDUSTRY RESULTS ($000) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Net premiums written | NPW growth % | Loss & LAE ratio % | Underwriting expense ratio % | Combined ratio before divs % | Combined ratio after divs % | Underwriting gain or loss after divs |
| 1985 | 143,981,686 | 22.2 | 88.9 | 26.0 | 114.8 | 116.5 | (27,786,949) |
| 1986 | 176,736,050 | 22.4 | 81.4 | 25.2 | 108.6 | 107.9 | (15,733,301) |
| 1987 | 191,464,734 | 8.7 | 77.7 | 25.5 | 103.1 | 104.5 | (9,575,709) |
| 1988 | 199,756,231 | 4.3 | 78.2 | 25.8 | 104.0 | 105.4 | (11,323,602) |
| 1989* | 204,000,000 | 2.1 | 82.9 | 26.2 | 109.1 | 110.4 | (21,500,000) |

*Estimate

Source: A M Best

**Roderick Oram** forecasts big changes in the insurance industry

# Unhappy and uncertain times

THESE are unhappy and uncertain times for US insurers. They may be enjoying premium increases in some lines of business but the modest upturn is doing nothing to ease the long-term problems confronting their industry.

Market, financial and political forces arrayed against the industry will likely force greater changes over the next five years than it experienced in the 1980s. Each sector faces different challenges although some common themes run across the industry.

For property/casualty companies, 1989 was a tough year marked by huge losses from natural disasters which exacerbated declining profits. Hurricane Hugo slammed into the Carolina coast in September and an earthquake shook San Francisco a few weeks later. Underwriting losses from such catastrophic causes totalled around $9bn last year, more than in the five previous years combined.

Net income for the property/casualty sector dropped 25 per cent to $11.2bn last year from $14.9bn in 1988, according to the Insurance Services Office and the National Association of Independent Insurers, two leading trade bodies.

Prospects have picked up slightly this year with gradual price increases on certain lines of commercial business appearing to stick despite excess underwriting capacity. Standard lines are faring less well and the overall picture remains troublesome. Premiums rose 5.5 per cent in the first quarter compared with 1989 but the underwriting loss widened to $5.4bn or 10.4 per cent of earned premiums from 7.4 per cent. Net income for the quarter tumbled 35 per cent to $2.5bn.

The downturn is deeply disappointing to the industry, cutting short its recovery from the longest and deepest profit slump in its history from the late 1970s to the mid-1980s.

Typically in past decades, "soft" market periods of about three years each were balanced by "hard" periods of similar duration when insurers could push through premium increases to rebuild profits. Now it looks as though for a variety of reasons the downturns will be much longer than the upturns, forcing big changes on the industry. Some of the more pessimistic analysts believe the property/casualty industry will have to shrink significantly.

Feisty customers are the most visible of its problems. California voters passed Proposition 103 in 1988 which outlined widespread actions including a 20 per cent cut in premiums on cars and other insurance lines. A number of other states including Pennsylvania, Nevada and South Carolina have followed suit. More than 300 insurance reform bills are pending in state legislatures across the country.

Meanwhile, moves are afoot in Congress to repeal many aspects of the McCarran-Ferguson Act of 1945 which exempts insurers from anti-trust measures.

The attempt to rollback premiums will take years to work their way through the courts but the message is clear to the industry – many of its customers are deeply unhappy with the price of coverage.

With rising claim costs and consumer pressure for rollbacks, some insurance companies are quitting the car business which accounts for some 40 per cent of the industry's premiums. This is leaving a growing number of higher-risk motorists unable to get company coverage. They end up in their state's residual pool subsidised by insurers and the state government.

Some of the pools are in parlous condition. New Jersey's covers half the state's motorists and is $3bn in deficit. Such problems are adding more voices to the call for governments to take control of car insurance.

Disaffection in other areas of property/casualty insurance is also obvious among large corporate clients. A growing number are taking matters into their own hands by becoming self-insured. Typically, the lowest risk clients take this approach on the most stable lines of business such as workmen's compensation on which they can get an accurate actuarial fix.

One-third of property/casualty premiums are now flowing to self-insured entities rather than to insurance companies, leaving the latter with higher risk business. The proportion could rise to nearer 50 per cent by the mid-1990s from around 20 per cent in the mid-1980s, analysts estimate.

Conditions are not easier in the life sector. After years of easy prosperity on traditional whole-life policies, they have had to scramble through the 1980s to devise products offering clients more flexible coverage and higher financial returns.

Increased competition and lower profits from these newer products is making life hard for small companies lacking sophisticated investment and data processing skills. Financial performance of the industry is flagging badly with many public life companies trading well below their book value. This, in turn, has led to an accelerating consolidation of the industry. The number of US life insurers is likely to more than halve from 2,850 in 1988 to around 1,300 by the end of the 1990s.

From only a handful of takeover deals in 1980, the volume grew to 38 worth $2.6bn last year. Records will be broken this year. Hicks, Muse, a Dallas investment firm, has already paid $530m for seven units of ICH and American General is on the block for around $7bn. The giant, put into play by Torchmark, a much smaller but more successful rival, could attract bids from abroad. Foreigners have already nibbled at far smaller companies. Royal Insurance of the UK paid $110m last year for Maccabees Mutual Life Insurance of Michigan.

In addition to the market forces bearing down on them, a growing number of insurance companies are having to redress the declining value of their assets. The incautious have overloaded portfolios with junk bonds and real estate loans of now much diminished value.

There is widespread concern that failure of some of these insurers will create the next US financial disaster.

The industry is suffering from serious deficiencies in regulation similar to those that led to the thrift crisis, a Congressional committee concluded this year after 18-months' study.

The parallels "are both obvious and deeply disturbing", said the committee chaired by Representative John Dingell, the powerful chairman of the House Energy and Commerce Committee. "They encompass scandalous mismanagement and rascality by those entrusted with operating insurance companies, along with an appalling lack of regulatory controls."

Half the insolvencies since 1969 occurred in the past five years and half the state funds to bail them out were paid in 1987, the committee said.

The industry reacted angrily, saying it highlighted the minor and unworthy fringes of their business.

The unaccustomed political pressure is further evidence that the industry's cosy relationships in Congress and the marketplace are over.